Calbee
Harvest the Power of Nature.

TSE code: 2229

Stronger than Ever

Annual Report 2014

Fiscal year ended March 31, 2014

Contents

Forward-looking Statements

This annual report contains forward-looking statements concerning the future plans, performance and strategies of CALBEE, Inc. and its subsidiaries and affiliated companies. These forward-looking statements are not historical facts. They are judgments and assumptions based on information available to the Company at the time of publication, and projections or future policies cannot be assured or guaranteed. Actual results may differ materially from those projected due to changes in economic or market conditions. As such, investors should not place undue reliance on forward-looking statements.

From Strength to Strength

Since its establishment in 1949, Calbee has been contributing to people's healthy lifestyles by providing innovative taste and fun through the production and sale of snack foods. Currently, Calbee has established itself in a strong, dominant position as the leading company in Japan's snack food sector, with a market share of over 50%.

As Calbee seeks to grow even stronger, it will expand its presence in the international marketplace going forward, and take up the new challenge of stepping up from being No. 1 in Japan to becoming a global food company. In order to establish a global presence, we will continue to promote cost reduction and innovation with the aim of becoming the strong No. 2 player in the global snack food market.

The Strength to Dominate the Domestic

Calbee's Share of the Domestic Snack Food Market

FY2014

53.9%

For further details, please see COO Message "Strong Growth in the Domestic Snack Food Market" on page 21 and Initiatives in Japan on pages 24–26.

Market

In Japan's mature snack food market, Calbee continues to increase its market share by creating innovative new products. In fiscal 2014, Calbee's share increased by 7.8 percentage points from fiscal 2009 to 53.9%. We will continue to innovate going forward, with the goal of capturing a 67% share.

Snack food market share source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2013 – March 2014
Snack food market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

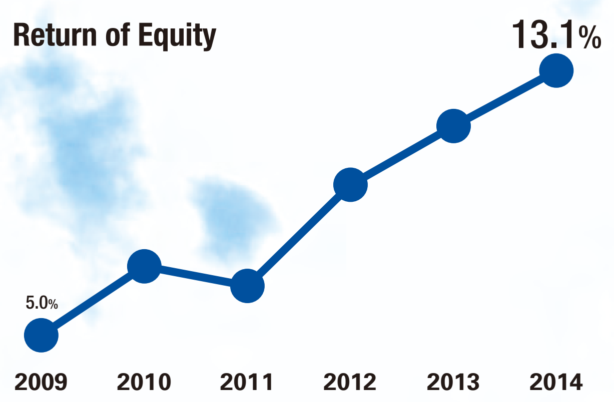
Focus on Strong Profit Margins

Return on Equity

FY2014

13.1%

Since the launch of its new management structure in 2009, Calbee has promoted cost reduction and innovation, leading ROE to increase dramatically from 5.0% in fiscal 2009 to 13.1%. We will continue our efforts to further increase profitability, with the aim of realizing sustained growth and a highly profitable business structure.



For further details, please see Calbee Performance Highlights on page 10 and the Financial Section on page 47.

Aiming to Become a Strong Global Player

Medium- to Long-term Target for Overseas Sales Ratio

30%

Overseas business expansion is a vital strategy for Calbee to achieve further growth. Calbee has innovative products that can win a place in the global market. We will work swiftly to develop global sales of these products, targeting a 30% overseas sales ratio with North America, China, Asia, and Western Europe as our key regions.

For further details, please see Overseas Initiatives on pages 28–31.

Diversity is an Essential Element in Calb

Ratio of Female Managers

FY2014

14.3%

➡ For further details, please see Promoting Diversity on pages 35–37.

ee's Growth

Embracing diversity is an integral strategy for Calbee to achieve sustainable growth and increase its corporate value. Five of Calbee's seven directors are outside directors and two of its four Audit & Supervisory Board members are outside members. Two of the directors are non-Japanese and two are women. Calbee has made rapid progress in appointing women to management positions over the past 5 years. The ratio of female managers has increased from 5.9% in 2010 to 14.3% in 2014. We intend to continue our efforts to promote diversity going forward.

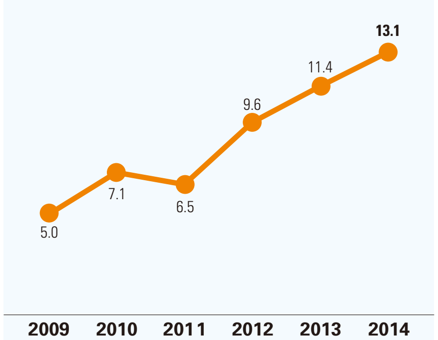
Calbee Performance Highlights

Years ended March 31

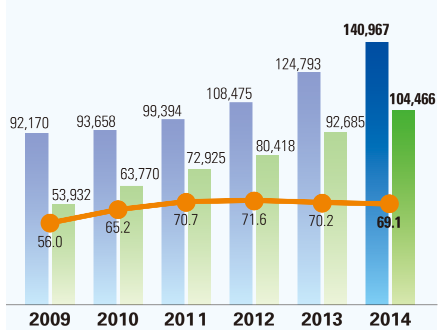
	Millions of yen							Thousands of U.S. dollars (Note 2)
	2009	2010	2011	2012	2013	**2014**	2014 / 2013	**2014**
For the Year:								
Net sales	¥137,377	¥146,453	¥155,529	¥163,269	¥179,411	**¥199,941**	11.4%	**$1,942,684**
Operating income	4,408	9,534	10,717	12,247	15,791	**19,717**	24.9%	**191,581**
Operating margin (%)	3.2	6.5	6.9	7.5	8.8	**9.9**	—	**—**
Net income	2,524	4,017	4,253	7,097	9,441	**12,086**	28.0%	**117,435**
Net income margin (%)	1.8	2.7	2.7	4.3	5.3	**6.0**	—	**—**
ROE (%)	5.0	7.1	6.5	9.6	11.4	**13.1**	—	**—**
Per Share (¥/$) (Note 3)**:**								
Net income	24.57	36.01	36.62	55.07	72.18	**91.46**	26.7%	**0.89**
Net assets	502.23	529.44	550.14	596.66	664.55	**729.93**	9.8%	**7.09**
Cash dividends	5.00	6.00	7.00	10.50	15.50	**22.00**	41.9%	**0.21**
Payout ratio (%)	20.3	16.7	19.1	19.1	21.5	**24.1**	—	**—**
For the Year:								
Capital expenditures	5,079	3,390	4,050	5,423	7,299	**6,393**	(12.4%)	**62,113**
Depreciation and amortization	8,325	7,915	7,244	6,676	6,319	**5,961**	(5.7%)	**57,917**
Cash Flows:								
Net cash provided by operating activities	11,160	19,492	16,665	7,050	17,329	**23,479**	35.5%	**228,124**
Net cash used in investing activities	(4,740)	(11,378)	(620)	(5,348)	(13,000)	**(17,042)**	—	**(165,580)**
Net cash provided by (used in) financing activities	(6,389)	(6,954)	(2,125)	(411)	607	**(383)**	—	**(3,722)**

Notes:
1. Consolidated financial statements prepared from 2009.
2. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥102.92 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2014.
3. A 50-to-1 stock split was conducted on January 14, 2011, and a 4-to-1 stock split was implemented on October 1, 2013. Per share figures were retroactively adjusted to reflect these stock splits.

ROE
(%)

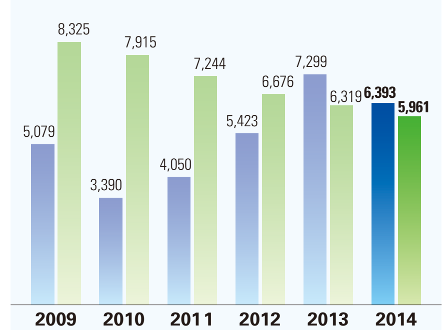


Total Assets / Net Assets / Equity Ratio
(Millions of yen / %)



Total assets
Net assets
Equity ratio

Capital Expenditures / Depreciation and Amortization
(Millions of yen)

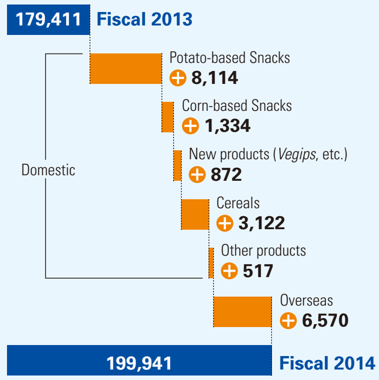


Capital expenditures
Depreciation and amortization

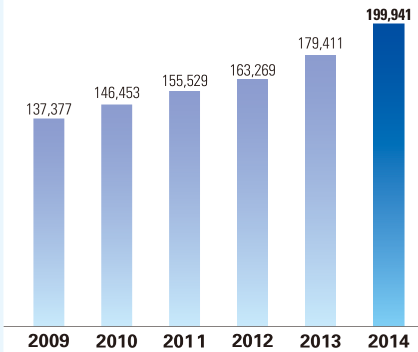
Net Sales in Fiscal 2014

¥199,941 million
(Up ¥20,530 million, 11.4% year on year)

In fiscal 2014, consolidated net sales rose 11.4% year on year to ¥199,941 million, on strong performance in domestic businesses such as potato-based snacks, cereals, and corn-based snacks, as well as growth in overseas business.



Net Sales
(Millions of yen)

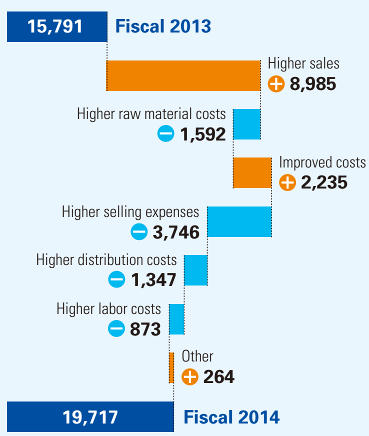


Operating Income in Fiscal 2014

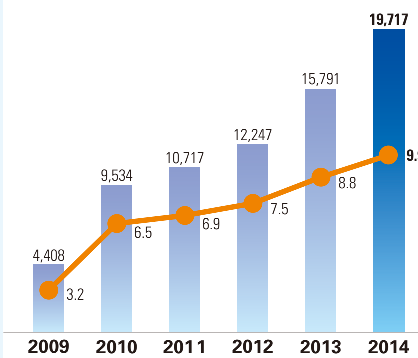
¥19,717 million
(Up ¥3,927 million, 24.9% year on year)

Operating income grew 24.9% to ¥19,717 million year on year.

The increase was mainly due to growth in net sales, along with contributions from cost reductions, specifically, reductions in costs for raw materials and depreciation and amortization, and increases in capacity utilization.

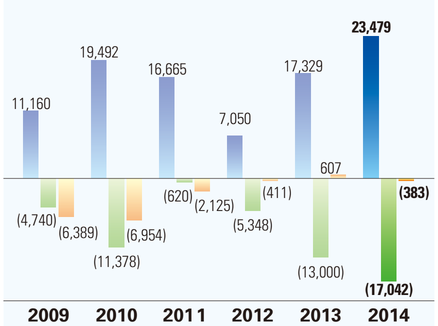


Operating Income / Operating Margin
(Millions of yen / %)



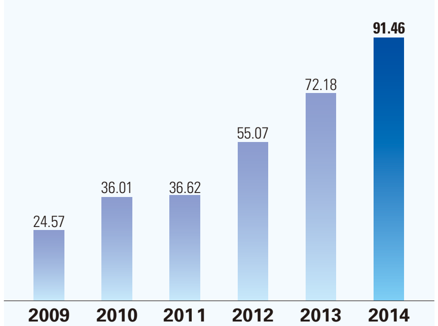
Operating income
Operating margin

Cash Flows
(Millions of yen)

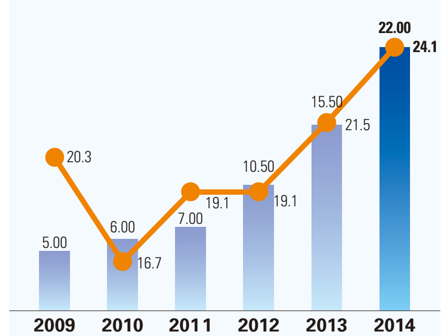


Net cash provided by operating activities
Net cash used in investing activities
Net cash provided by (used in) financing activities

Net Income per Share
(Yen)



Cash Dividends Applicable to the Year Per Share / Dividend Payout Ratio
(Yen / %)

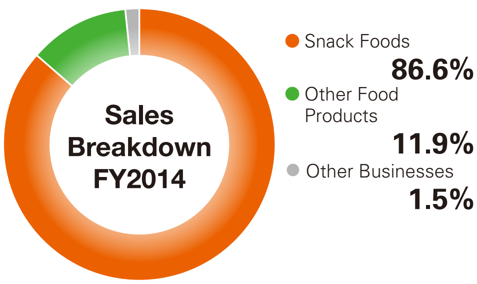


Cash dividends applicable to the year per share
Dividend payout ratio

At a Glance

In the production and sale of snacks and other foods business, the Calbee Group mainly produces and sells potato-based snacks, flour-based snacks, corn-based snacks, other snacks, processed bread and cereals. In fiscal 2014 (the year ended March 31, 2014), net sales in the production and sale of snacks and other foods business totaled ¥196,920 million, an increase of 11.3% year on year.

In other businesses, net sales increased 25.0% year on year to ¥3,021 million.



Snack Foods

Potato-based Snacks (Composition of Net Sales 56.0%)

Potato Chips

(launched in 1975)

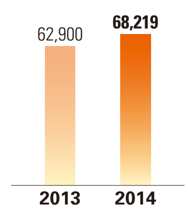
PRODUCT INFORMATION

Although we were relative latecomers to the market, our potato procurement system allowed us to supply *Potato Chips* nationwide throughout the year. Our TV advertising campaign also proved successful, promoting *Potato Chips* as the top brand in the Japanese market. In addition to our range of conventional thin-style potato chips fried in cooking oil, we offer a variety of other products that help us to stand out from other companies. These include *Kata-Age Potato*, a range of thickly sliced potatoes fried slowly in a kettle using a traditional method, and *Pizza Potato Chips*, which are made with our unique "melt flake" technology that gives them an authentic cheese taste, as well as a wide range of flavors to match different seasons, local tastes and other factors.

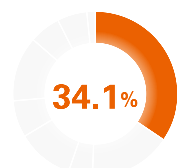
OVERVIEW OF OPERATIONS

In fiscal 2014, *Potato Chips* sales increased 8.5% year on year to ¥68,219 million, bolstered by a strong response to an "extra-volume" campaign in our core products *Usushio* (lightly salted), *Consome Punch* (consommé), and *Norishio* (laversalt), an expansion of the limited time sales of the *Kata-Age Potato* series, and the launch of the new deep-cut sliced product *Deepo*, as well as growth in orders from business partners for manufacturing of private-brand products, among other factors.

Net Sales
(Millions of yen)



Composition of Net Sales



Jagarico

(launched in 1995)

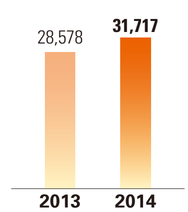
PRODUCT INFORMATION

Jagarico is our second megabrand after *Potato Chips*. Three years after launch, annual sales reached ¥10 billion, growing to ¥20 billion in its 11th year. By its 19th year, fiscal 2014, *Jagarico* had grown into a brand with net sales of ¥30 billion. *Jagarico* was Japan's first snack-in-a-cup, and it has proven popular with a wide range of customers thanks to its unique crunchy texture and easy-to-eat style that leaves hands clean.

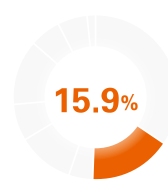
OVERVIEW OF OPERATIONS

In fiscal 2014, sales increased 11.0% year on year to ¥31,717 million, supported by strong sales of large size packages.

Net Sales
(Millions of yen)



Composition of Net Sales



Jagabee

(launched in 2006)

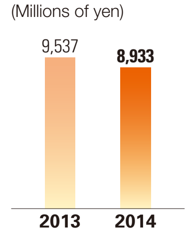
PRODUCT INFORMATION

Jagabee is made from unpeeled potatoes processed into stick shapes that maintain the original flavor of the potatoes. Their unique texture also sets them apart from *Jagarico*.

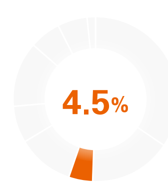
OVERVIEW OF OPERATIONS

In fiscal 2014, sales decreased 6.3% year on year to ¥8,933 million, due to sluggish sales of core products.

Net Sales
(Millions of yen)



Composition of Net Sales



Snack Foods

Flour-based Snacks

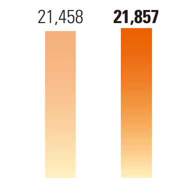
PRODUCT INFORMATION

Launched in 1964, *Kappa Ebisen* (prawn crackers) is a long-selling snack product made from whole natural prawns.

OVERVIEW OF OPERATIONS

In fiscal 2014, sales of flour-based snacks increased 1.9% year on year to ¥21,857 million, reflecting steady sales of core products such as *Kappa Ebisen* and *Sapporo Potato*.

Net Sales
(Millions of yen)



Composition of Net Sales

Corn-based Snacks

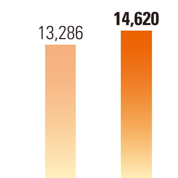
PRODUCT INFORMATION

Mike Popcorn Butter Shoyu (butter and soy sauce) flavor was launched in 1983. It has become a long-selling product. Our corn-based snack business also includes *Doritos* and *Cheetos*, two global megabrands developed by FRITO-LAY.

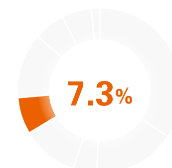
OVERVIEW OF OPERATIONS

In fiscal 2014, sales of corn-based snacks amounted to ¥14,620 million, up 10.0% year on year. This increase was underpinned by strong sales of *Garrett Popcorn Shops* and greater sales in our core product, *Mike Popcorn*.

Net Sales
(Millions of yen)



Composition of Net Sales



Other Snacks (Including overseas business)

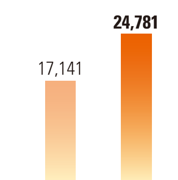
PRODUCT INFORMATION

Vegips were launched in 2010 as a vegetable chip seasoned only with salt, allowing consumers to enjoy the original flavor of the vegetables and a unique texture.

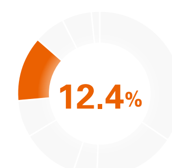
OVERVIEW OF OPERATIONS

In fiscal 2014, sales of other snacks rose 44.6% year on year to ¥24,781 million, due to increased sales of *Vegips* in Japan, accompanied by growth in operations overseas including the sales of snacks in countries such as the United States and China.

Net Sales
(Millions of yen)



Composition of Net Sales



Other Food Products

Processed Bread

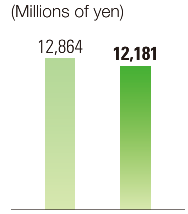
PRODUCT INFORMATION

We manufacture sweet buns and bread with savory fillings for supply to retailers.

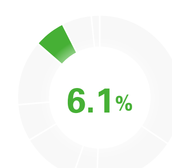
OVERVIEW OF OPERATIONS

In fiscal 2014, processed bread sales declined 5.3% to ¥12,181 million.

Net Sales
(Millions of yen)



Composition of Net Sales



Cereals

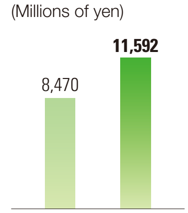
PRODUCT INFORMATION

Furugura (fruit granola) is the undisputed leader in Japan's cereal market with a market share of over 20%. *Furugura* has proven popular among a broad range of customers, mainly women, who see it as a ready source of fiber, iron and vitamins.

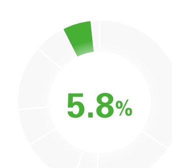
OVERVIEW OF OPERATIONS

In fiscal 2014, sales of cereals rose 36.9% year on year to ¥11,592 million due to strong sales of *Furugura*.

Net Sales
(Millions of yen)



Composition of Net Sales



CEO Message

“We aim to make Calbee strongly competitive in the global market”

Five Consecutive Years of Record-high Sales and Profit

Since my appointment as Calbee’s CEO, we have pursued operational reform on the twin pillars of cost reduction and innovation. The business environment has been challenging to say the least, with consumption generally flat and raw material prices rising as the yen has depreciated. Despite these challenges, however, we have generated consistently strong results, and I am pleased to report that for the year under review we posted record high sales and income for the fifth consecutive year.

This steady improvement in performance does not mean that our operational reforms are complete, because it is a truism of business that even strongly performing companies will inevitably face difficult issues. We believe that for Calbee there are currently eight key challenges facing us in the global marketplace. During the year ahead, we will be taking steps to address each of these challenges, with the aim of achieving further profitable growth.

Eight Challenges for Growth

1. Accelerating new product development

New product development is one of Calbee’s core competencies. We have grown as a company by launching a megabrand approximately every 10 years, but our challenge now is to dramatically accelerate the development period to five years or less. We will meet this challenge by reinforcing the developmental frameworks and marketing functions that drive the creation and commercialization of our unique and innovative products.

Akira Matsumoto
Chairman of the Board & CEO,
Representative Director

The Twin Pillars of Calbee's Approach

Targeting Continued Growth and High Profitability

Cost Reduction | Innovation

Growth Strategies

Expand Overseas Business
- Overseas sales ratio to over 30%

Boost New Product Development
Develop Megabrands
- Continuously launch new products

Expand Domestic Market Share
- Snack food market Over 67%
- Potato chips market Over 75%

Strengthen Alliance with PepsiCo Group

Pursue Licensing and Acquisition Opportunities

Develop New Business

Progress in Fiscal 2014

Expand Overseas Business
- Overseas sales ratio: 8%
- Started full-scale business expansion in North America and China
- Established an Indonesian JV and a subsidiary in UK

Boost New Product Development
Develop Megabrands
- Continuously launch new products
- *Furugura* (fruit granola) became Japan's dominant leading cereal brand
- Growth in *Jagarico* and *Kata-Age Potato*

Expand Domestic Market Share
- Snack food market 53.9%*
- Potato chips market 69.4%*

Strengthen Alliance with PepsiCo Group
- Exclusive rights in North America to market and sell *Ruffles®* *Crispy Fries* (*Jagabee*) in North America

Develop New business
- Opened *Garrett Popcorn Shops*
- Opened directly-operated shops in department stores

* Snack food market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.
Snack food & potato chips market share source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2013 – March 2014

2. Curbing SG&A expenses

SG&A expenses is the area where we've made the least progress over the past five years. Although we have successfully expanded domestic market share with aggressive in-store promotions, discounting has also increased. We are adopting a number of internal and external measures to resolve this issue, with the aim of lowering the SG&A ratio from 35% to 30%.

3. *Ruffles® Crispy Fries* business in North America

Ruffles® Crispy Fries (*Jagabee*) were launched in North America in May 2013 through an alliance with PepsiCo. Our analysis shows the potential for sales of ¥100.0 billion in this new market, which is ten times the size of Japan, where the *Jagabee* brand has annual sales of ¥10.0 billion. However, we were unable to achieve our target for the initial year. Having discussed the matter with PepsiCo over several months, I am confident that nearly all the issues involved have been resolved. PepsiCo thinks very highly of the product and has an active marketing plan for the next fiscal year. Selling the product under the Calbee brand is also under consideration.

In the North American business overall, the Calbee brand *Snapea Crisps* enjoyed strong sales over the past year and is on track for growth. The management team at Calbee North America is highly cost conscious and their rigorous efforts have resulted in a high profit margin. We will continue to draw on the expertise of our local managers.

For further details about Calbee's North American operations, please see Overseas Initiatives "North America" on page 30.

4. Business in China

Of the eight challenges, business in China is the most urgent and critical. The Chinese market is the most promising snack food market in Asia, and it ranks alongside North America as a key to Calbee's future growth.

A joint venture established in April 2013 with the Tingyi Group and ITOCHU Corporation has not performed up to expectations in its first fiscal year. There are issues in a number of areas, including products, costs, distribution, and quality, and we are working closely with our partners to find solutions that can put our Chinese business on a pathway for growth.

For further details about Calbee's Chinese operations, please see Overseas Initiatives "China" on page 31.

5. Achieving a manufacturing cost ratio of 50%

The manufacturing cost ratio has improved dramatically over the past five years as a result of comprehensive cost reductions. The ratio was 64.8% in fiscal 2009, but has since improved to 56.4% as of fiscal 2014. However, costs need to be cut even further if we are to be a globally competitive company. The next year or two are likely to be especially challenging due to higher raw material costs with the weaker yen, but we intend to make further reductions and achieve a manufacturing cost ratio of 50%.

6. Japan's consumption tax hike

In April 2014, the consumption tax in Japan was lifted from 5% to 8%, and in another 18 months it is slated to rise to 10%. In the first few months since the increase, there has been no major impact on consumption. We will continue to monitor the situation closely, with the aim of responding flexibly to changes in consumer sentiment and market needs while also looking for opportunities to expand our market share.

7. Promoting *Vegips* and *Jagabee*

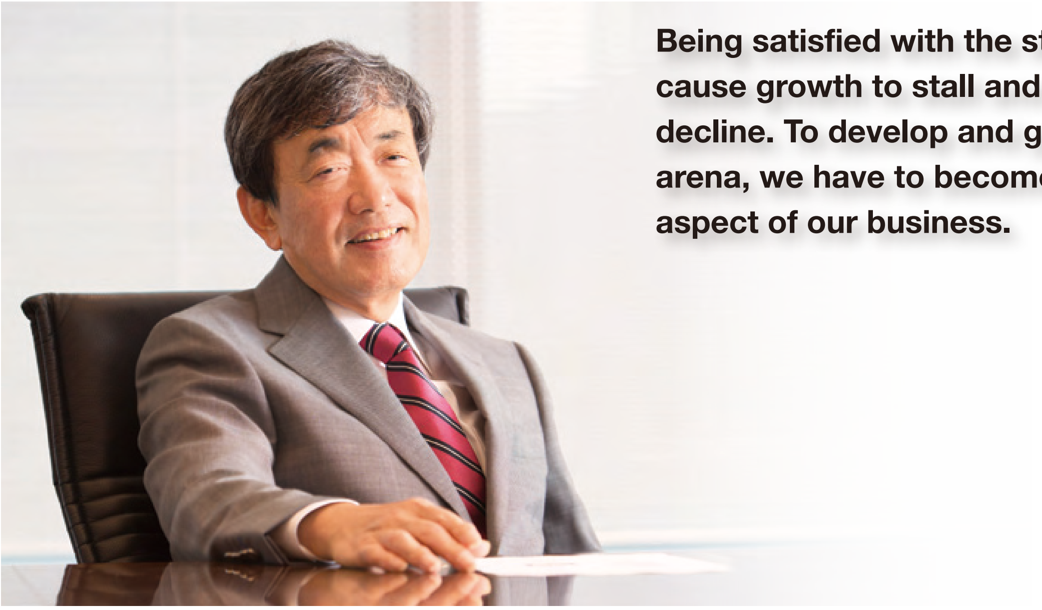
Launched in 2006, *Jagabee* sales increased steadily as the product lineup was expanded. Growth slowed in its eighth year, however, and sales declined in fiscal 2014. Growth in sales of *Vegips*, launched in 2011, has also stalled, influenced by a higher price point and low rate of repeat customers.

Meanwhile, sales of *Jagarico* continue to grow, with annual sales topping ¥30.0 billion during its twentieth anniversary. *Jagabee* is a unique, highly-rated product that might well achieve as much as half the sales of *Jagarico*. To get *Jagabee* and *Vegips* growing again, we will focus on price and volume adjustments, flavor development and cost reductions.

8. Optimizing factory numbers

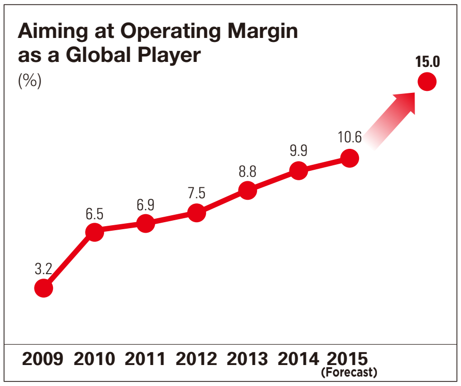
We currently have 17 factories in Japan. Optimizing this factory footprint is a critical management issue that needs to be addressed from a long-term perspective, with full consideration of the impact on our workforce and balance sheet. We are making progress with plant utilization and production line integration, and we will continue to consider how to structure Calbee's production systems for greatest efficiency and profit.

Our medium- to long-term target is for an operating margin of 15%, which is a challenging goal, but by emphasizing diversity and competing in earnest on every front we will give ourselves every opportunity to succeed.



Being satisfied with the status quo would cause growth to stall and ultimately decline. To develop and grow in the global arena, we have to become stronger in every aspect of our business.

Achieving Profitability on a Par with Global Peers



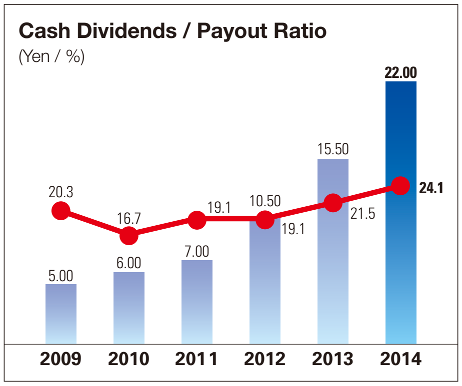
Since assuming the role of CEO, I have been a strong advocate for diversity, because I believe that without diversity Calbee cannot grow. Our goal is to maximize company performance by maintaining an environment that enables everyone in our workforce to express their talent, regardless of gender, nationality, race, religion, age or disability.

Over the past five years, operating income has grown at a CAGR of 35% and the operating margin has risen significantly, from 3.2% to 9.9%. I am certain that our approach to diversity has contributed to these outcomes. Our medium- to long-term target is for an operating margin of 15%, which would put us on par with other major global food product companies. This is a challenging goal, but by emphasizing diversity and competing in earnest on every front we will give ourselves every opportunity to succeed.

Commitment to Shareholders

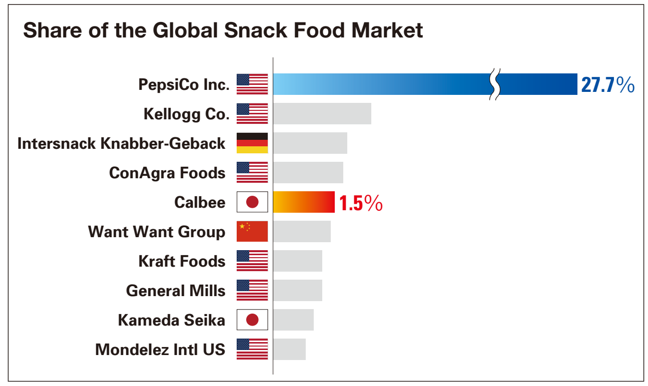
Calbee strives to be a company that earns and maintains the respect and trust of all stakeholders.

We have built a corporate governance structure that meets global standards of excellence in terms of transparency, based on the fundamental principles of governance. The responsibilities of all directors and executive officers are clearly defined, and outside directors with a high degree of independence monitor the management. Our board includes members of both genders and from nations other than Japan.



Cash dividends   Payout ratio

A 50-to-1 stock split was conducted on January 14, 2011, and a 4-to-1 stock split was implemented on October 1, 2013. Per share figures were retroactively adjusted to reflect these stock splits.



Source: Euromonitor (2013)

Calbee recognizes that distributing profits to shareholders is an important management responsibility. Our approach is to ensure that Calbee remains highly profitable and financially sound while returning profits to investors on a consistent yet progressively increasing scale, in tandem with improvements in earnings. In fiscal 2014, we increased our year-end dividend by ¥6.5 to ¥22 per share, for a consolidated payout ratio of 24.1%. Our aim is to continue raising the annual dividend and dividend payout ratio concomitant with earnings growth.

We are also committed to contributing to society as a good corporate citizen. We do this through various initiatives, such as offering dietary education programs, promoting the employment of people with disabilities, and jointly running the Great East Japan Earthquake Orphans' Fund, which was set up to enable children orphaned by the earthquake to continue their education.

Since its founding in 1949, Calbee has grown to become a leader in the Japanese snack food market by developing unique, high-quality products. Now, we are working to open up global markets for these products. Driving this strategy is our recognition of the need to constantly set new goals for growth and development. Being satisfied with the status quo would cause growth to stall and ultimately decline. To develop and grow in the global arena, we have to become stronger in every aspect of our business.

Calbee is currently one of a cluster of companies vying for the number two position in the global snack foods market. We still have enormous untapped potential, and this fuels our ambition of becoming the world's strong number two. We look forward to your continued support as we work to make this ambition a reality.

Akira Matsumoto

Chairman of the Board & CEO, Representative Director

COO Message

New Record Highs for Both Sales and Profit

As the domestic confectionery market in fiscal 2014 generally marked time, the snack food market saw relatively firm growth. Calbee continued to aggressively promote business activities on the twin pillars of innovation (growth strategies) and cost reduction, and managed to further increase its share in the snack food and cereal markets. We also worked to improve our cost of sales ratio and by the end of the year had successfully set new record highs in both sales and profits.

Net sales rose 11.4% year on year to ¥199,941 million, on strong performance in domestic businesses such as potato-based snacks, cereals, and corn-based snacks, as well as growth in overseas business.

At the profit level, operating income finished up at 24.9% over the previous year at ¥19,717 million, mainly because of the increase in sales, although we increased sales promotion expenses to capture a greater market share in Japan and overseas. The operating margin also improved by 1.1 percentage points to 9.9%. Net income increased 28.0% year on year to ¥12,086 million, as gain on sale of investment securities was partially offset by loss on cancellation of outsourcing agreement and impairment loss.

For further details about the Japanese market, please see Initiatives in Japan "Market" on page 24.

Performance in Fiscal 2014
(Millions of yen)

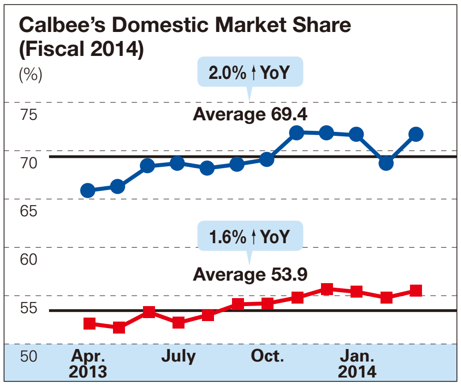
	Fiscal 2012	Fiscal 2013	**Fiscal 2014**
Net Sales	¥163,269	¥179,411	**¥199,941**
Operating Income	12,247	15,791	**19,717**
Net Income	7,097	9,441	**12,086**

“We will develop our strong domestic business even further to expand profits”

Strong Growth in the Domestic Snack Food Market

In the domestic snack food market, consumers continued to prefer products at lower price points. Compared to other industries, however, consumers also saw value in moderately priced products and volume, and the market saw relatively modest growth, expanding by 0.8% year on year to ¥413.5 billion.

In this market environment, Calbee continued to focus on expanding its share in order to reinforce its domestic operating base. As a result, we delivered a very strong performance that exceeded market growth. We increased our share of the domestic potato chips market to 69.4%, up 2.0 percentage points from fiscal 2013, and our share of the snack food market to 53.9%, up 1.6 percentage points. Japan’s confectionery market is not expected to see significant growth going forward due to the April 2014 consumption tax increase and the country’s low birth rate. Nevertheless, we will continue developing and nurturing new products and spurring growth in existing products to achieve our goal of capturing a two-thirds share of the domestic snack food market.



Potato chips market share
Snack food market share
Potato chips & snack food market share source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2013 – March 2014

Snack food market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

Sales Growth Supported by Steady Demand for Potato-based Snacks, Corn-based Snacks, and *Furugura* and by Continued Expansion Overseas

Sales increased ¥20,530 million year on year, on the back of strong performance in domestic businesses such as potato-based snacks, corn-based snacks, and cereals as well as growth in overseas business.

Domestically, sales of potato-based snacks increased ¥8,114 million year on year, contributing substantially to the Company's overall sales growth. Among these, *Potato Chips* benefitted from an extra-volume campaign for core products and *Kata-Age Potato* performed strongly. *Jagarico* also contributed, with firm sales of the large-size packages sold mainly at convenience stores.

In the corn-based snacks category, *Garret Popcorn Shops*, a venerable brand from Chicago, enjoyed strong sales and our core product, *Mike Popcorn,* also saw sales growth. As a result, sales in this category increased by ¥1,334 million.

In the cereals category, *Furugura* (fruit granola) has grown significantly, garnering attention domestically as a new breakfast option. The expansion in the sales of Calbee's products has stimulated the overall market for granola. Supply has been unable to keep up, so we have limited our focus to development of core products, but, even so, sales in the cereals category increased by ¥3,122 million year on year. A new production line went into operation in February 2014, increasing production capacity by 1.5 times.

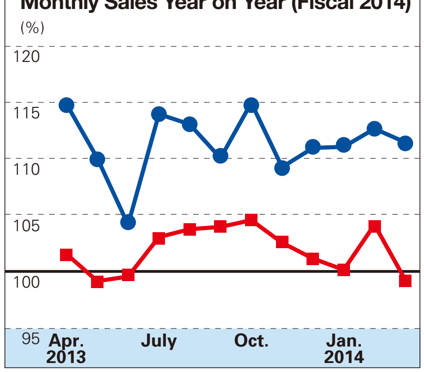
Domestic and Overseas Sales
(Millions of yen)

	Fiscal 2013		**Fiscal 2014**		Growth	Growth on local currency basis
	Amount	Composition	Amount	Composition		
Domestic sales	170,189	94.9%	**184,148**	**92.1%**	+8.2%	+8.2%
Overseas sales	9,223	5.1%	**15,793**	**7.9%**	+71.2%	+42.4%
Total	179,411	100.0%	**199,941**	**100.0%**	+11.4%	+10.0%

Sales Contribution by Product in Fiscal 2014
(Millions of yen)

Net sales	**+20,530**
Domestic	**+13,960**
Potato-based snacks	+8,114
Corn-based snacks	+1,334
New products (*Vegips*, etc.)	+872
Cereals	+3,122
Overseas	**+6,570**
North America	+2,976
China	+1,477

Monthly Sales Year on Year (Fiscal 2014)



Calbee consolidated net sales year on year
Snack food market growth

Calbee consolidated net sales data source: Calbee
Snack food market growth source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2012 – March 2014

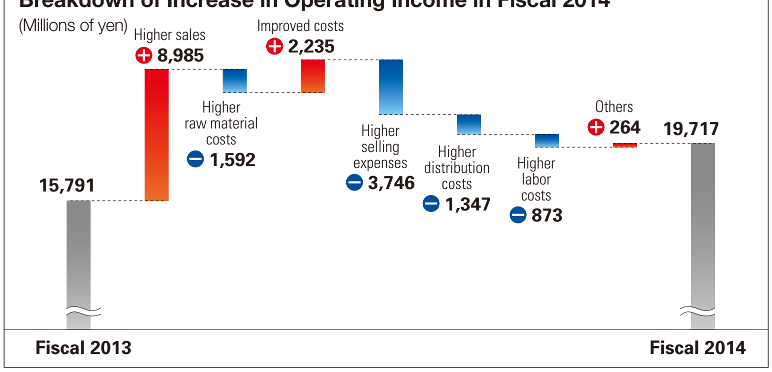
In overseas markets, sales increased ¥6,570 million over the previous year as a result of aggressively developing operations in multiple countries, particularly in North America and China. The effect of the yen's depreciation accounted for ¥2,661 million of the increase, but sales rose in every country Calbee has entered.

Profit Growth Assisted by Sales Growth and Cost Reductions

Operating income increased 24.9% year on year to ¥19,717 million. The biggest positive factor was the increase in sales, which contributed ¥8,985 million. Cost reductions of ¥2,235 million also played a part. Though raw material prices rose by ¥1,592 million, centralized procurement helped reduce raw material costs by ¥1,076 million. In addition, increased capacity utilization and productivity provided ¥897 million, and lower depreciation expenses provided another ¥262 million.

At the same time, to expand market share domestically and overseas, selling expenses increased ¥3,746 million, but, starting from fiscal 2015, we intend to make promotional investments with a greater focus on efficiency and effectiveness.

Breakdown of Increase in Operating Income in Fiscal 2014



As a result of the cost reductions discussed above, the cost of sales ratio improved by 0.3 percentage points (on an actual basis*) year on year to 56.4%. Our operating margin also improved by 1.1 percentage points to 9.9%. However, to reach our medium-term target of 15% we will make a concerted effort across the entire Group to reduce costs even more, by curbing raw material costs, increasing production efficiency and capacity utilization and optimizing sales promotion expenses.

* From fiscal 2014, an amount equivalent to the distribution business cost (¥941 million) has been transferred to cost of sales from the distribution expenses portion of selling, general and administrative expenses.

Aiming for Further Profit Growth

To realize continued growth and high profitability, Calbee has gone about its business with a focus on the twin pillars of innovation, in the form of six growth strategies, and cost reduction, and the results speak for themselves. We will continue to cultivate a simple, transparent and decentralized corporate structure that enables all employees to act with increased autonomy, as we work to make our strong domestic business even stronger and aggressively expand our overseas business.

Thank you for your continued interest and support of Calbee.

Shuji Ito
President & COO, Representative Director

Initiatives in Japan

Calbee is a dominant presence in Japan's snack food market, with a share of 53.9%. But with no major market growth expected in the domestic market going forward, we are seeking to extend our share even further and increase earnings.

Targeting a market share of 67% and an operating margin of 15%, we will continue promoting innovation and cost reduction and further strengthen our already strong domestic business.

TARGET

Share of the Japanese snack food market

67%

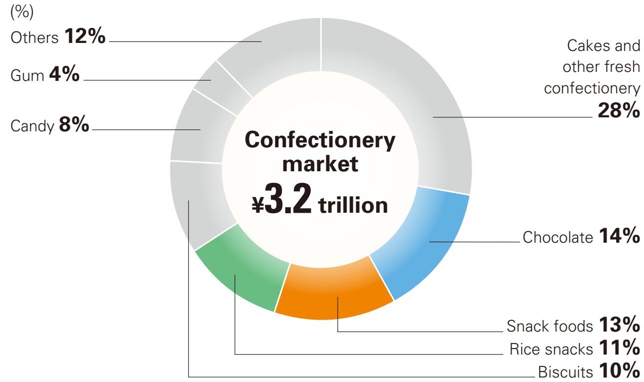
Market

- **Japan's confectionery market is approximately ¥3.2 trillion, with a CAGR over the past five years of –0.6%.**
- **The snack food market is approximately ¥413.5 billion, with a CAGR over the past five years of 0.9%.**
- **Calbee must capture a greater share of the market in order to grow domestically**

The overall Japanese confectionery market in 2013 (retail value basis) remained substantially the same as the previous year at ¥3.2 trillion. Calbee's sales in its mainstay snack food market, totaled ¥413.5 billion, which represents 13% of Japan's confectionery market overall. Sales have been expanding gradually, at an average annual pace of 1%. Economic conditions in Japan are improving, and the consumption tax hike that went into effect in April 2014 appears to be having only a limited impact on consumer markets. However, with Japan's low birth rate along with other factors this makes it unlikely that we will see any major growth in the snack food market going forward. We must therefore increase our share if we are to continue to achieve sustained growth domestically.

Composition by Category in 2013

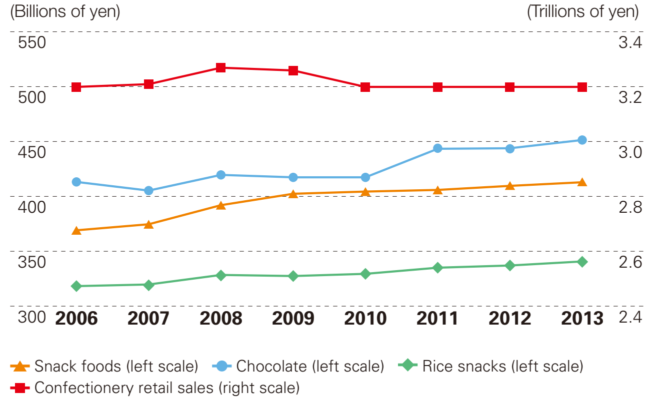
(%)



Source: All Nippon Kashi Association – Retail sales value

Confectionery Market in Japan

(Billions of yen) (Trillions of yen)



Source: All Nippon Kashi Association

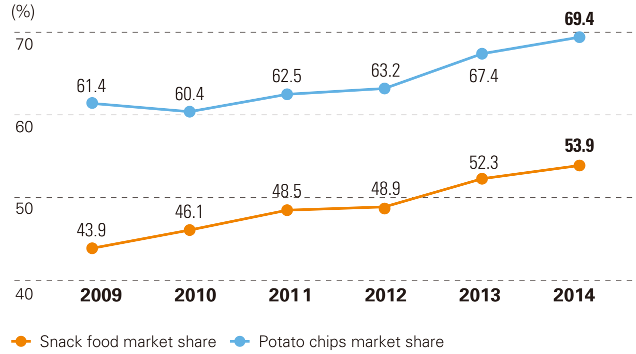
Expand Market Share in Japan

- **Expand market share through vigorous promotion activities**
- **Promote decentralization to enable flexible responses to changing consumer needs**
- **Room for further growth in shares of the Kanto region and corn-based snacks markets**

Over the past five years, Calbee has achieved a compound annual growth rate (CAGR) of 7.8%, exceeding the market's CAGR of 0.9%. Our share of the snack food market in fiscal 2014 was 53.9%, 10.0 percentage points higher than five years ago. In addition, our share of the potato chips market stands at 69.4%, which represents growth of 8.0 percentage points over the past five years.

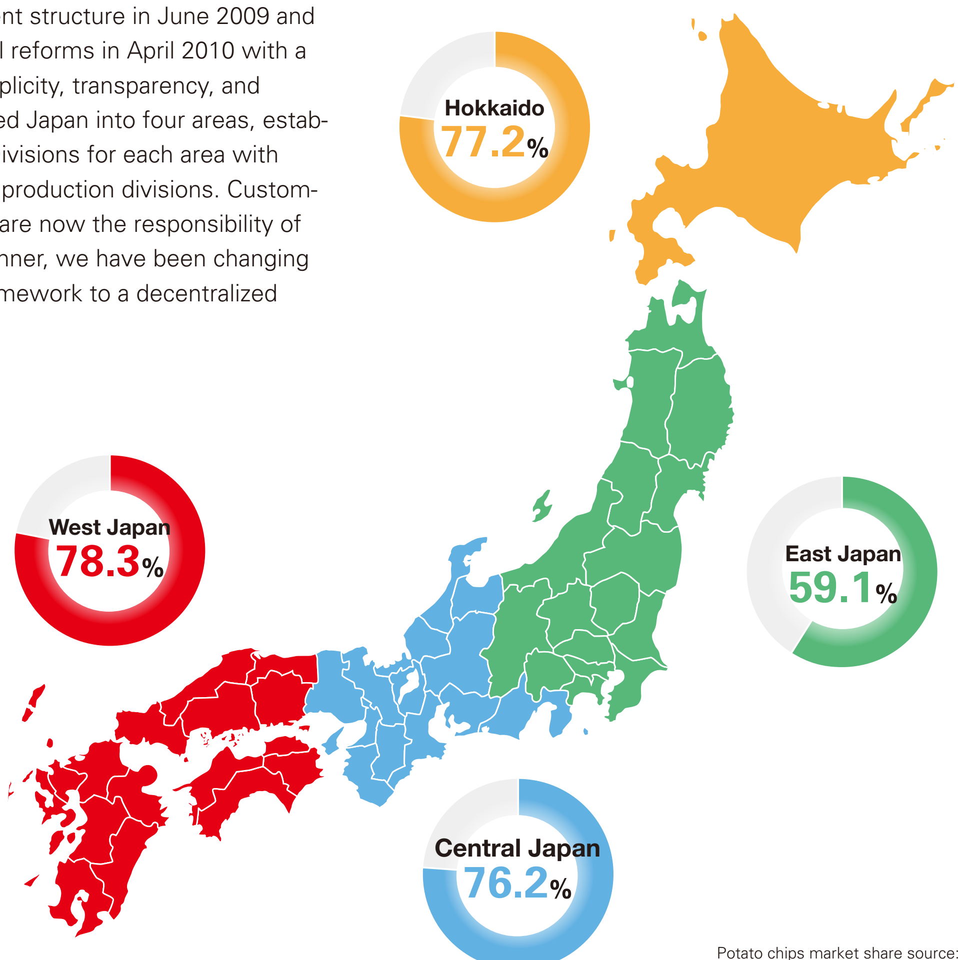
We have been able to increase market share not only by offering a strong lineup of products, but also by responding precisely to changing market needs, something we have achieved by promoting decentralization. We launched a new management structure in June 2009 and put through major structural reforms in April 2010 with a basic policy of "greater simplicity, transparency, and decentralization." We divided Japan into four areas, establishing Regional Business Divisions for each area with control over local sales and production divisions. Customers with nationwide chains are now the responsibility of our Sales Group. In this manner, we have been changing our previous centralized framework to a decentralized

Calbee's Snack Food Market Share / Calbee's Potato Chips Market Share



Notes:
1. Snack food & potato chips market share source: INTAGE SRI (nationwide, all retail formats), Base: sales value, April 2008 – March 2014
2. Snack food market share after April 2008 is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.
3. "Year" notation is fiscal years (April to March) for CALBEE, Inc.

Potato Chips Market Share in Japan by Area



Potato chips market share source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2013 – March 2014

Initiatives in Japan

structure in which the Regional Business Divisions and Sales Group hold much of the authority, with the former spearheading both sales promotions and product planning. Through these measures, we have been actively working to decentralize. We have successfully met customers' ever-changing needs by continuing to launch limited-time offerings and exclusive local products on short cycles.

Looking at individual areas, Calbee's market share in the East Japan region in fiscal 2014 was lower than in the other regions at 59.1%. The East Japan region therefore represents an opportunity to increase our share substantially. Competition is also most intense in the East Japan region; however, Calbee intends to increase its market share in the potato chips and snack food markets by continuing to capture share in the Tokyo metropolitan area, which is Japan's largest market.

Looking at market shares in fiscal 2014 by primary ingredient, potato-based snacks held a 77.4% share of the market, flour-based snacks, a 55.8% share, and corn-based snacks, a 21.9% share. We hold the top share of the market in corn-based snacks, though it is low at 21.9%, so this also presents an opportunity. We currently sell *Mike Popcorn* and the Frito-Lay brands *Cheetos* and *Doritos*, but we also intend to accelerate development of flavors and textures that Japanese people in particular tend to enjoy and work to increase market share on this basis.

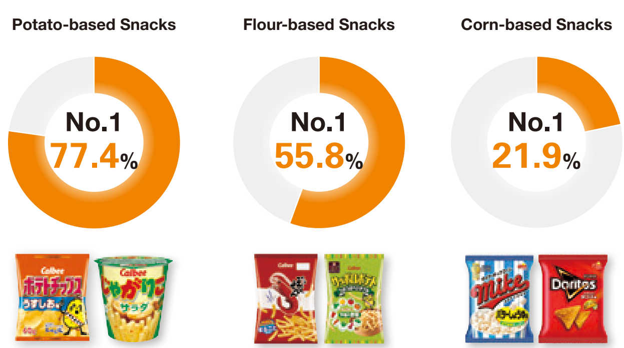
Cost Reductions

- **Promote centralized procurement and control capital expenditure to achieve cost reductions**
- **Increase capacity utilization at factories to significantly improve the cost of sales ratio**

With the start of the new management structure in 2009, we worked aggressively to reduce costs in order to bolster price competiveness. Our efforts in this area began with centralized procurement. The Procurement Department in the head office began handling purchasing for raw materials and equipment that had been previously purchased separately by each factory, and this change reduced costs significantly. When we returned the generated profits to customers, sales and market share increased and capacity utilization at factories also improved markedly. Low capacity utilization at factories had been a management issue five years ago, but as sales grew thanks to aggressive sales promotions, we were able to raise production efficiency without increasing facilities or personnel. As a result, over the course of four years, we reduced costs by ¥8,615 million in total, and the cost of sales ratio improved substantially, from 64.8% in fiscal 2009 to 56.4% in fiscal 2014.

Over these past five years, we have promoted cost reductions centering on COGS, but we will now also begin focusing on cutting selling, general and administrative expenses. In particular, we intend to raise the efficiency of expenditures for sales promotions and further raise profitability.

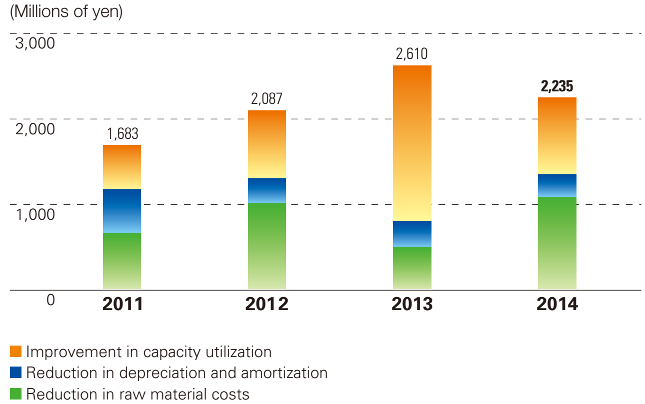
Market Share by Primary Ingredient



Potato-based snacks & flour-based snacks & corn-based snacks market share source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2013 – March 2014
Corn-based snack market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

Cost Reduction Amount

(Millions of yen)



Growth of *Furugura*

The cereal business is our second business pillar following the snack food business. We will expand this business, focusing mainly on *Furugura*

Cereal is one of the staple breakfast foods of ordinary households in the U.S. Calbee entered the cereal business in 1988 with the goal of providing Japanese consumers with cereal that would appeal to their taste preferences.

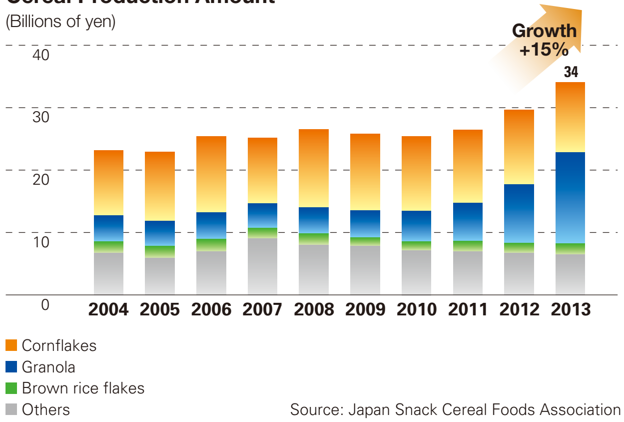
Japan's cereal market had been topped out at ¥25.0 billion for a period of time, but since 2012, rapid growth from Calbee *Furugura* (fruit granola) has driven growth in the granola category leading to expansion in the overall cereal market as well. The market expanded to ¥34.0 billion in 2013, a 15% increase over the previous year. Moreover, granola has been drawing attention as a new breakfast staple in Japan because it provides the required nutrients in a simple and easy meal.

Since it was launched in 1991, *Furugura* has undergone a number of changes, in its ingredients such as its cereal grains and fruit and flavor, as well as improvements in its packaging, and we have conducted steady sales activities for it. As a result, the product is now highly popular with consumers, particularly women, in part because it is a delicious and easy source of dietary fiber, iron, and other minerals.

PR and marketing activities for *Furugura* were reinforced starting in February 2012, raising awareness of the product and increasing the number of stores that stock it. As a result *Furugura* became the No. 1 product in single brand sales in the domestic cereal market in fiscal 2012. Sales in fiscal 2014 were ¥9,492 million, an increase of 51.1% over the previous year. *Furugura* has grown to become one of Calbee's mainstay products and it is currently our strongest performer. In fact, in fiscal 2014, supply could not keep up, so production was limited to core products. However, in February 2014, we invested ¥1,200 million to augment production lines and thereby bolstered supply capacity by 1.5 times.

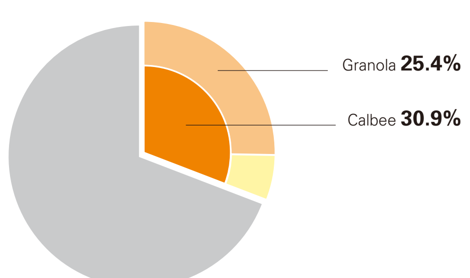
To continue to strengthen our cereal business, we plan to launch limited-time seasonal products and other products with premium granola and ingredients, as well as snack-style products and thereby work to cultivate latent market demand in the granola category.

Domestic Cereal Market
Cereal Production Amount



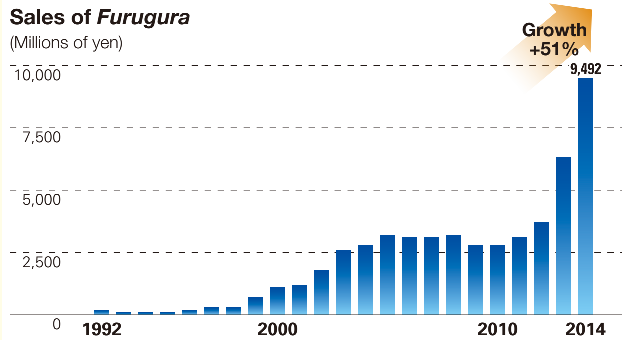
Source: Japan Snack Cereal Foods Association

Calbee's Share of the Domestic Cereal Market



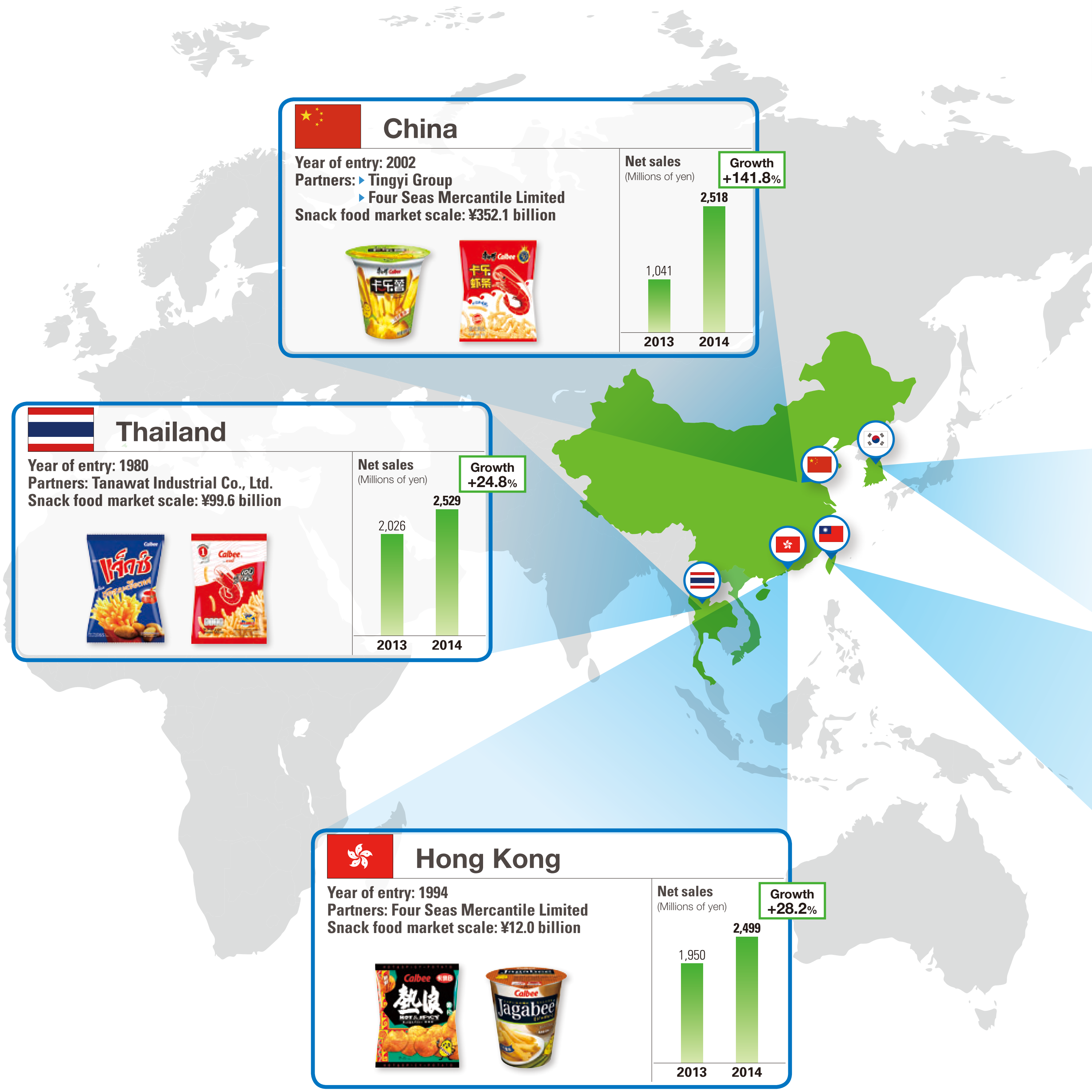
Cereal market share source: INTAGE SRI (nationwide, all retail formats)
Base: Sales value, April 2013 – March 2014

Sales of *Furugura*



Overseas Initiatives

Expanding overseas business is Calbee's most important growth strategy. With priority on North America, China, Asia and Western Europe, we will create products and set prices that win the hearts of local consumers and expand our overseas business even more swiftly.



TARGET

Overseas Sales Ratio

30%

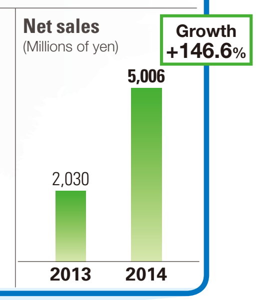
North America

Year of entry: 1970

Partners: ▸ R.D. OFFUTT COMPANY

▸ PepsiCo Group

Snack food market scale: ¥3,619.8 billion

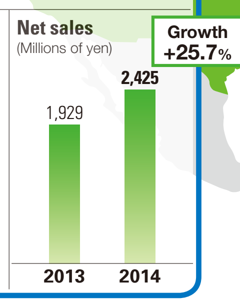


South Korea

Year of entry: 2003

Partners: HAITAI Confectionery & Foods Co., Ltd.

Snack food market scale: ¥9.7 billion

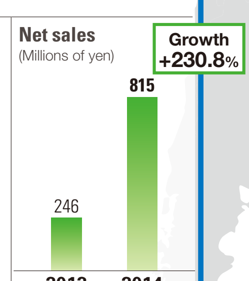


Taiwan

Year of entry: 2012

Partners: Wei Chuan Foods Corporation (Tingyi Group)

Snack food market scale: ¥7.6 billion



Overseas Initiatives

NORTH AMERICA

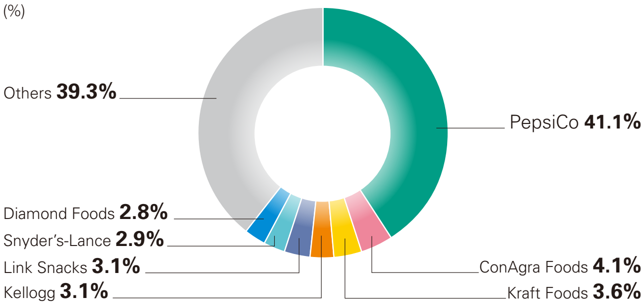
Market

The U.S. snack food market is the world's largest at ¥3.6 trillion. Over the past ten years its CAGR has been 3.8% and its growth is expected to continue.

With its Frito-Lay brand, PepsiCo sits atop the American snack food market, which it dominates with a 41.1% market share.

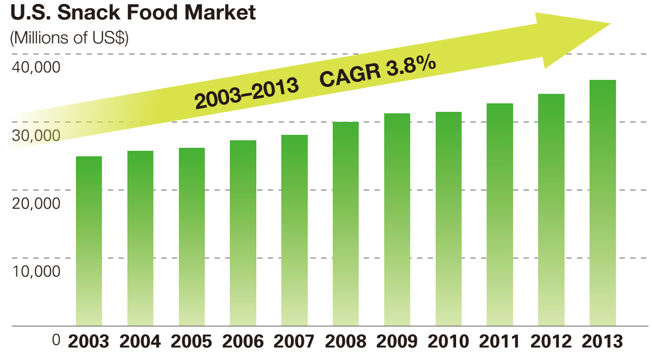
Snack Companies' Market Share in the U.S.

(%)



U.S. Snack Food Market

(Millions of US$)



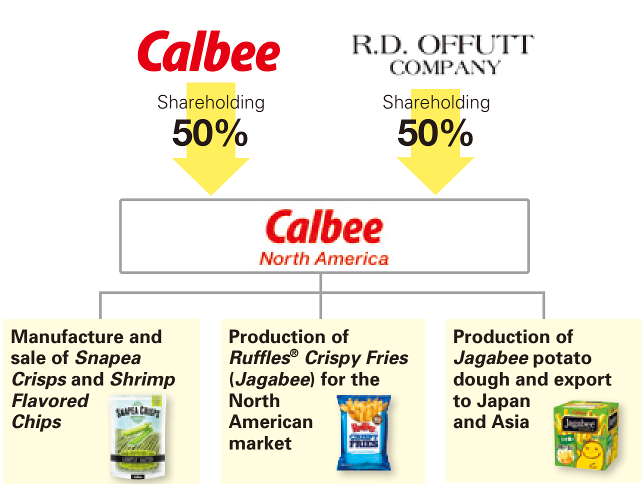
Source: Euromonitor Sweet and Savoury Snacks

Main Business

Calbee North America, LLC (CNA), a joint venture of Calbee and R.D. OFFUTT COMPANY (RDO), handles our snack food business in North America. RDO is a major producer of potatoes and constantly provides a consistent quality potato supply, assuring CNA the ability to meet the production needs for quality dough. In addition, RDO provides key support to CNA's operations in terms of financial, legal, IT, and business networks.

CNA currently produces dough for export and domestic sales, markets *Ruffles® Crispy Fries* in the U.S. and Canada through Frito-Lay North America (FLNA), and sells *Snapea Crisps*, *Lentil Snaps*, and *Shrimp Flavored Chips* in North America.

Organization Chart for North America



Performance in Fiscal 2014

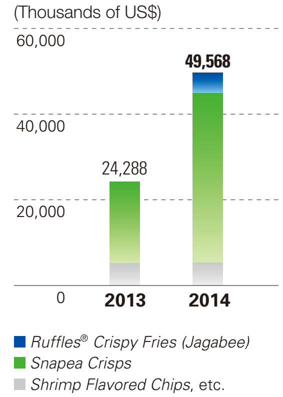
Net sales in fiscal 2014 totaled ¥5,006 million, an increase of 146.6% over the previous fiscal year. Presently, *Snapea Crisps*, sold under the Calbee brand, are driving the North American business. The product has been especially popular with health-conscious consumers, and sales are growing steadily at Costco Wholesale Corporation and Wal-Mart Stores, Inc. With a high profit margin, it is also a major contributor to earnings.

Sales of *Ruffles® Crispy Fries (Jagabee)*, sold by FLNA, totaled ¥500 million, falling short of our target.

In fiscal 2015, we will continue to strengthen *Snapea Crisps* and *Ruffles® Crispy Fries* and conduct testing on a third product.

Net Sales

(Thousands of US$)



CHINA

Market

The Chinese snack food market in 2013 was ¥350.0 billion and has had a CAGR of 14.8% over the past seven years. The market is expected to grow substantially as consumers' disposable incomes increase.

In terms of market share, Want Want Holdings Limited is the leader, with foreign firms like the PepsiCo Group and the Orion Group also holding strong positions.

Main Business

Calbee entered China in 2002 with the establishment of a joint venture with Four Seas Mercantile Holdings Ltd., but business activities were limited to Guangdong Province. In 2013, it expanded its scope to include the entire country and is developing its business under the Four Seas brand.

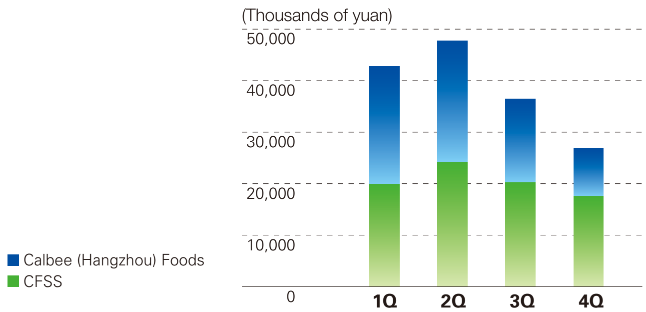
In April 2013, Calbee (Hangzhou) Foods Co., Ltd., our joint venture with local partner Master Kong Instant Foods Investment (China) Co., Ltd. of the Tingyi Group and ITOCHU Corporation, launched operations and has been developing business under the joint Calbee-Master Kong brand.

Performance in Fiscal 2014

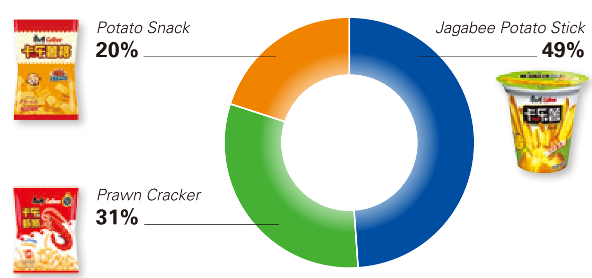
Calbee (Hangzhou) Foods started with *Jagabee Potato Stick* and the two flour-based products *Prawn Cracker* and *Potato Snack*, but sales lagged and the company posted a loss in its initial year. Problems have been identified in price, cost, distribution, and quality, and we will work with our partner companies to get on track and overcome these issues as quickly as possible.

Meanwhile, CFSS Co. Ltd. expanded its sales area and saw brisk sales of flour-based snacks, which resulted in higher sales and profit for the year.

Net sales FY2014



Calbee (Hangzhou): Breakdown of sales FY2014



Newly Entered Markets

As part of its strategic overseas expansion, Calbee has entered new markets in Indonesia, the Philippines, and the U.K.

In July 2013, Calbee established a joint venture in **Indonesia**'s promising snack food market with ITOCHU Corporation and PT. Mitrajaya Ekaprana of the **Wings Group**, a leading Indonesian conglomerate. The Wings Group has large shares of the local laundry detergent and instant noodle markets, strong brands, and marketing capabilities. The venture is targeting ¥6.0 billion in net sales and a 10% market share within five years.

The **Philippines**' snack food market is expected to grow with the local economy. Calbee established the joint venture Calbee-URC, Inc. in April 2014 with **Universal Robina Corporation** (URC), which has a 43% share of the Philippine snack food market. URC will handle local marketing, production assistance, and facilities procurement, while Calbee will provide technical support for development and manufacturing. Calbee-URC is targeting net sales of ¥4.0 billion within six years of the launch of operations.

In March 2014, Calbee established a **wholly owned subsidiary** in the **U.K.**, Europe's largest snack food market. The company plans to launch *Snapea Crisps* initially given their strong success in North America. Planned sales channels include retailers like Whole Foods Market, Inc., and the company will progressively expand its channels and product lineup to firmly establish the Calbee brand in the U.K. The company is targeting net sales of ¥10.0 billion within five years from the start of operations.

Succeeding in the Global Market

Strengthening Corporate Governance and Promoting Diversity

Kenji Iwamoto

Director of Engagement,
Governance for Owners Japan KK

Mr. Iwamoto joined Governance for Owners Japan in February 2011 after working at the then Industrial Bank of Japan. He holds an MBA in Finance and Strategy from Simon Graduate School at the University of Rochester, and over 20 years of experience working in corporate finance and investment banking. He is currently leading the TMAM-GO Japan Engagement Fund as the Director of Engagement.

Dialogue between an Institutional Investor and an Outside Director

Kenji Iwamoto of Governance for Owners Japan KK and outside director and independent officer Kazuo Ichijo discussed their evaluation of corporate governance at Calbee and the issues to be addressed.

Current state of corporate governance in Japanese companies, and where they should be heading

—**Iwamoto:** The Japan Engagement Fund aims to help investee companies increase their shareholder value over the long-term while providing an attractive return to investors, mainly through having constructive dialogue with investee management teams. In Japanese companies, the management and executive teams are often essentially the same. Directors should have a management perspective, but often have only an executive officer's perspective. Even when companies have an executive officer system or committees system, their actual situation often doesn't reflect their formal structure. People involved with daily operations inevitably have a narrower perspective. I think the director's true role should be to make broad, independent judgments without getting drawn into the details of frontline operations, and to stimulate innovation that creates new value or significant changes.

—**Ichijo:** I agree. It is difficult for the executive team to produce the kind of innovation that can disrupt the status quo, but without innovation, there can be no development. So there is a strong need to separate management and execution.

Today's market changes rapidly, and needs are diversifying. Having multi-faceted connections with external people who have technologies and skills that the company lacks, and using these connections to innovate through open innovation, can help to maximize profits.

The three main principles of open innovation are open, transparent, and inclusive. These must be reflected both in a company's activities and its corporate governance.

Calbee has been working to strengthen corporate governance and promote diversity under a new management framework that started in 2009. In order to succeed in the global market, we believe it is necessary to meet global standards of corporate governance and diversity, by adopting systems that are in ordinary use by global corporations. Calbee's top management is committed to building a robust organizational framework for succeeding in the global market to increase the Company's shareholder value.

Japanese companies tend to apply these three perspectives only to a narrow area. The problem is that organizational systems end up becoming Japanese systems run by Japanese people for Japanese people. Globalization requires the concepts of open, transparent, and inclusive to be realized in a more diverse world. This is an important challenge for all Japanese companies.

Thoughts on the Corporate Governance System at Calbee

—**Ichijo:** At Calbee, only two of the seven directors have executive functions: the CEO and the COO. The other five are outside directors. Moreover, since the CEO spends a lot of time outside the company, he can look at its systems objectively and make decisions with a long-term view. While this is not perfect, it is very close to an ideal structure.

General wisdom might hold that people outside a company wouldn't have a proper understanding of it. But we concluded at the first Board of Directors meeting of the reorganized Calbee that companies should be managed in a way that even outsiders can understand. The presence of outside directors requires tacit knowledge to be made explicit. Verbalizing tacit knowledge and putting it into figures makes it possible to analyze it. Japanese companies have a lot of tacit knowledge, so they can benefit from outside directors.

Actually, sometimes we outside directors do decide to reject matters brought up for discussion at the Board of Directors meeting.

—**Iwamoto:** Calbee is rather progressive for a Japanese company. The CEO understands the essence of corporate governance. Also, the outside directors are clearly all independent and genuine. They have all the necessary talents; some of them are knowledgeable about corporate finance and international business strategy, such as Professor Ichijo, and others are top managers in the food industry. The board has strong diversity too, including female and non-Japanese members. The founding family has been admirable in understanding the shift to the present structure.

Kazuo Ichijo

Outside Director
CALBEE, Inc.

Professor and Dean of the Graduate School of International Corporate Strategy, Hitotsubashi University

Adjunct Professor at IMD
(International Institute for Management Development)

Professor Ichijo, is an authority in Japan on knowledge creation theory and a specialist in management organization theory and innovation. He holds an MA from the Graduate School of Social Sciences at Hitotsubashi University and a PhD in Business Administration from the Graduate School of Business Administration at the University of Michigan. Professor Ichijo was appointed as an outside director of CALBEE, Inc. in 2009.

—— **Ichijo:** Calbee's Board of Directors meetings start with the CEO, Mr. Matsumoto, checking the targets that he has set himself. When numerical targets haven't been achieved, he acknowledges this and practices accountability by discussing the issues that need to be tackled. He does this every month.

The change in management structure radically transformed the company. Mr. Matsumoto has transformed the employees and the company, and provided new value to customers. His greatest achievement is introducing the employees to a new world. I have never heard of employees growing as much as Calbee's employees. I consider this true leadership. He is leading new activities at Calbee, such as promoting diversity and implementing an employee award system.

Measures to improve corporate governance even further

—— **Iwamoto:** I think Calbee could look at its succession planning for key senior managers who drive the company, such as Mr. Matsumoto. It is dangerous for organizations to rely too much on a single person. Calbee may need a system for ensuring a smooth transition to the next top manager.

—— **Ichijo:** It's true that there is a significant reliance on Mr. Matsumoto. The Company's major challenge is how to change this at the organizational level. To help with this, the Company set up the Advisory Board as the committee for advising on appointments. The Advisory Board discusses nominees for directorships and their remuneration, and presents suggestions to the Board of Directors.

—— **Iwamoto:** As a company with an Audit & Supervisory Board, Calbee's structure is not globally understood well,

Meaningful debate with sound investors contributes to a company's sustained growth.

——Kenji Iwamoto

Open innovation is indispensable for further growth in a company, as well as for governance.

——Kazuo Ichijo

and this may count against it when people evaluate it. Having understood the true nature and intention of Calbee, I think this would be a terrible waste. Perhaps Calbee could consider shifting to a company with a committees system, since such a format is widely accepted by global investors.

—— **Ichijo:** I don't think Calbee is at that stage yet, but it is certainly to be considered as the Company grows globally. We also need to further promote diversity. The Company needs to incorporate people with different cultural backgrounds and have discussions that cannot be imagined with a predominantly Japanese management team.

Dialogue with institutional investors and corporations

—— **Iwamoto:** We want to see Calbee become a true global food company. We strongly believe Calbee has the potential to achieve this. However, we don't intend to advise on the finer points of strategy, but would like to discuss more about board level decision-making matters. The point of the Japanese Stewardship Code is to find ways to support companies' sustainable growth and thereby Japan's economic development. Our fund's ultimate aim is the same. We will voice our opinions clearly if we think they can help the company. There is value in dialogue itself, and I believe it helps companies to develop. I hope that we will continue to build our relationship on open and constructive dialogues as we have been doing.

—— **Ichijo:** I would like our investors to offer sound opinions, and to be leaders of third-party opinion about the Company. We outside directors say hard-to-hear things to the top management to increase shareholder value. I would like investors who are truly thinking about the Company's sustainable growth from long-term standpoints to offer opinions in the same manner.

Promoting Diversity

At Calbee, we consider promotion of diversity to be what drives the Company's growth. We believe that having outstanding people of all races, genders, ages, and nationalities working together will increase morale and strengthen the Company's ability to compete globally. As such, we are actively promoting diversity.

Diversity in the Board of Directors and the Audit & Supervisory Board

Calbee's Board of Directors comprises seven directors, including five highly independent outside directors. The outside directors all have different backgrounds that include abundant knowledge and experience of business management at leading companies, both Japanese and international, and high levels of expertise. The outside directors include one woman and two non-Japanese people to ensure diversity.

Calbee's Audit & Supervisory Board comprises four members, including three highly independent outside members. To ensure diversity, the Audit & Supervisory Board members include those with experience as certified public accountants and a lawyer, as well as a experience and knowledge as senior management in financial institutions. Moreover, one of the members is a woman.

Ümran Beba
Outside Director

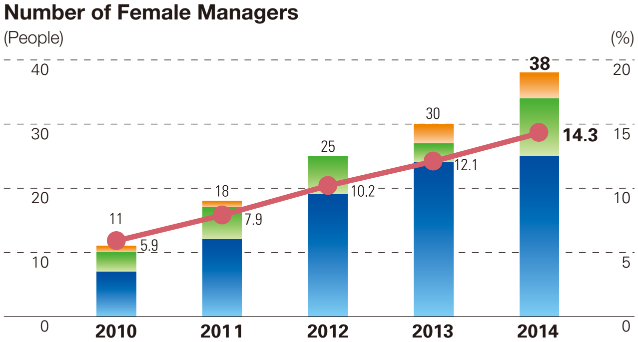
Tomomi Yatsu
Outside Audit & Supervisory Board Member

For further details, please see Corporate Governance System on pages 38–40.

Active Participation by Women

Calbee is guided by the belief that active participation by women is essential for the Company's growth and has been actively promoting the appointment of women to managerial positions. The ratio of female managers at Calbee grew from 5.9% in fiscal 2010 to 14.3% in fiscal 2014. The number of women in management is growing at all levels, including division managers, general managers, and section managers, and Calbee is also taking steps to

Number of Female Managers



Number of female managers (left scale)
- Division manager
- General manager
- Section manager

Ratio of female managers (right scale)

Female Executive Officers
Ayako Goto, Chisa Hayakawa, Tomoko Fukuyama, Shinobu Egi

motivate and educate prospective managers. As a medium- to long-term target, the Company aims to increase the ratio of female managers to 30% by 2020. Increasing this ratio is one of Calbee's key performance indicators, and bonuses or incentives are paid to each individual according to their level of achievement. Calbee intends to continue its efforts to raise awareness of the issue of women in management throughout the Group, and is committed to actively appointing women to management positions going forward.

Initiatives of the Diversity Promotion Committee

The Diversity Promotion Committee was established in 2010 and is responsible for clarifying issues in diversity promotion, ensuring awareness of relevant systems and revising them. The committee also conducts various initiatives to foster understanding and empathy among employees. In addition, the committee proposes schemes and opportunities to the senior executives for increasing the roles of diverse human resources even further.

The annual Diversity Forum provides an opportunity for the company to share with employees its commitment to diversity initiatives, and to change employee awareness regarding diversity. In 2013, 407 employees from across Japan attended the forum and gained insight about many issues through lectures and discussions.

Promotion activities are being vigorously pursued in every section and division, and the Diversity Promotion Committee has formed a support framework for these activities.

Diversity Forum 2013

Selected for Nadeshiko Brand 2014

NADESHIKO BRAND 2014

Calbee was selected for the Nadeshiko Brand 2014, as an enterprise that is outstanding for encouraging women's success within the Japanese food industry. The Nadeshiko Brand designation is granted to a selection of companies listed on the First Section of the Tokyo Stock Exchange that actively encourage women to participate in the workplace.

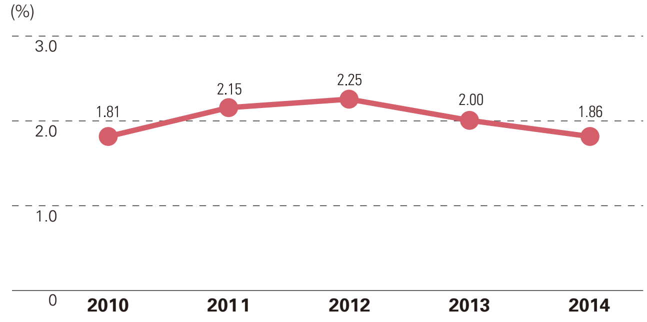
The selection is made jointly by the Ministry of Enterprise, Trade and Industry and the Tokyo Stock Exchange. Calbee was rated highly for actively encouraging participation by female employees in way that led to improved performance, including its "management capabilities in utilizing diverse human resources" and its "ability to adapt to environmental changes."

Providing Employment Opportunities for People of All Abilities

In November 2007, the Calbee Group established Calbee Eatalk Co., Ltd. in an effort to expand the Group's employment opportunities for people with disabilities. By providing work that matches workers' differing abilities and workplaces equipped with facilities and equipment to meet various needs, Calbee Eatalk aims to create workplaces where anyone can unlock their full potential on the job, regardless of a disability.

Through these measures, the Calbee Group achieved an employment ratio for people with disabilities of 1.86% as of March 31, 2014.

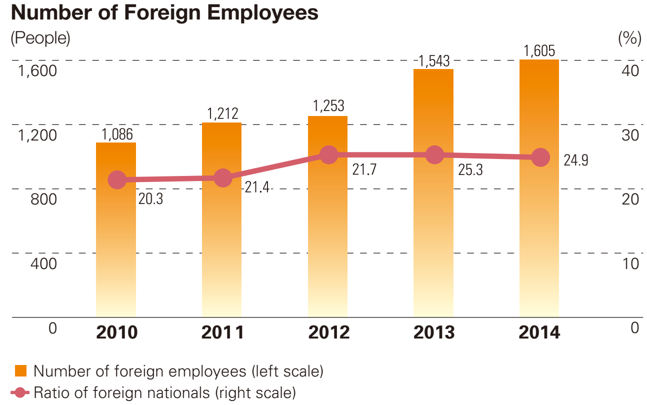
Ratio of Employees with Disabilities



Active Employment of Foreign Nationals

As Calbee's business expands more rapidly overseas, the Company is following the concept of localization to maximize use of local management and human resources at its overseas subsidiaries. CALBEE, Inc. is also taking steps to energize its workplaces by embracing a diverse array of cultures and values through the recruitment of employees of various nationalities. In fiscal 2014, 6 of our 27 new recruits were international students. Combining both local overseas hiring and hiring in Japan, our ratio of non-Japanese employees on March 31, 2014 stood at 24.9%. We will continue our policy of actively employing foreign nationals and localizing our operations going forward.

Number of Foreign Employees



Initiatives in Thailand

Kwanyuen Kedkaew
Factory manager,
Calbee Tanawat Co., Ltd.

At Calbee Tanawat Co., Ltd. (Thailand), among the 301 employees, the ratio of female managers has reached 52%, including the factory managers, and the ratio of female supervisors has reached as high as 50%. One of the reasons for this achievement is our efforts to make workplaces that are accommodating to women, including a 90-day maternity leave system and the ability to switch to less physically demanding duties during pregnancy.

Moreover, an increasing number of employees are obtaining high school and university qualifications after joining the company and making use of them to move into different roles and positions.

In promoting active participation by women, the company respects the diverse backgrounds of its employees. It also provides a training system to help them acquire the knowledge they need to work as managers and implements measures to foster their motivation.

The factory in Thailand

Corporate Governance System

Calbee's corporate governance system includes a majority of outside members of the Board of Directors and the Audit & Supervisory Board for a degree of management independence unparalleled in Japan. By adopting this system, we have strengthened management oversight functions, clearly separated business execution and supervisory functions, enhanced management transparency, clarified management responsibilities, and sped up decision-making.

Basic Approach

As stated in our corporate philosophy, "We are committed to harnessing nature's gifts, to bringing taste and fun, and to contributing to healthy lifestyles." Based on this thinking, we aim to win the trust and meet the expectations of customers, business partners, local communities, shareholders and all our other stakeholders, and increase corporate value, which encompasses value for shareholders, customers and employees. To this end, we will strive to reinforce and enhance corporate governance.

Matters Concerning Organizational Form and Organizational Management

Organizational form: Company with an Audit & Supervisory Board	
Directors	
Number of directors*	Up to 13
Number of directors (of which, outside directors)	7 (5)
Term of office for directors*	1 years
Audit & Supervisory Board members	
Number of Audit & Supervisory Board members*	Up to 4
Number of Audit & Supervisory Board members (of which, outside Audit & Supervisory Board members)	4 (3)
Term of office for Audit & Supervisory Board members*	4 years
Rights plan and other measures to protect against acquisition	None

*Stipulated by the Articles of Incorporation

Calbee's Changing Corporate Governance System

2001

Separation

- Introduced the executive officer system
- Appointed outside directors
- Separated execution and supervision functions

2009

Supervision

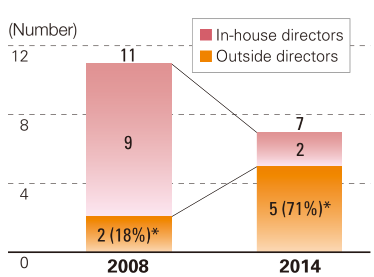
- Reduced in-house directors from nine to two
- Increased outside directors from two to five
- Highly independent outside directors comprise the majority

Diversity

- Appointed first non-Japanese director

Lean Board of Directors for more agile management and stronger supervision

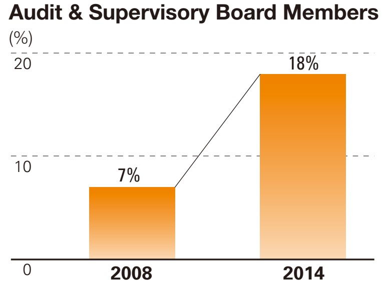
Number of Directors



* Figures in brackets are composition ratios.

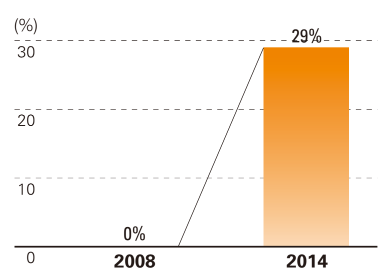
Increased Female Directors and Audit & Supervisory Board Members for diversity

Ratio of Female Directors and Audit & Supervisory Board Members



Increased non-Japanese directors for global expansion and diversity

Ratio of Non-Japanese Directors



2011

Ethics and Risk Management

- Established Ethics and Risk Management Advisory Board including external experts

2012

Transparency

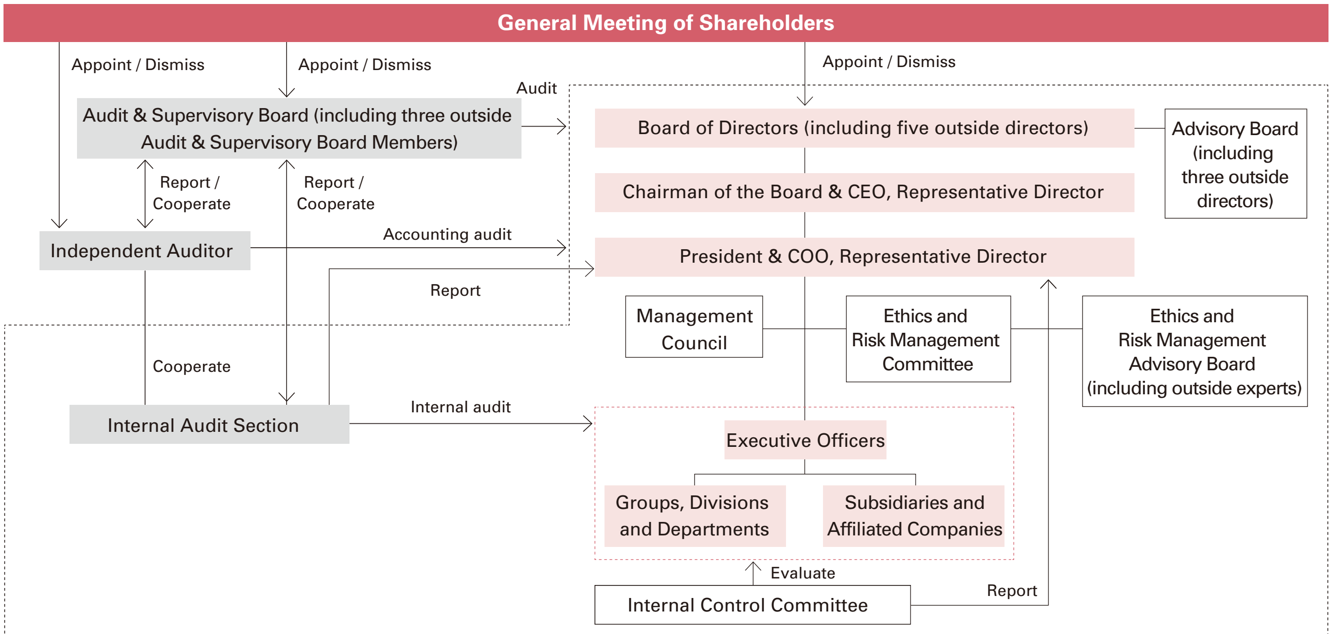
- Established the Advisory Board for nominations and remuneration including outside directors

2013

Accountability / Diversity

- The term for director appointments was changed from 2 years to 1 year
- The number of female Executive Officers increased to 4 out of 25

Corporate Governance System



Management and Execution Structure

To enhance management transparency, we have appointed outside directors with a high degree of independence and introduced an executive officer system. This separation of business execution and supervisory functions aimed at actively strengthening the monitoring of the Board of Directors is a key characteristic of the Calbee Group's corporate governance system.

The Board of Directors is comprised of two in-house directors and five highly independent outside directors for a total of seven directors. As a general rule, the Board meets once every month to discuss resolutions on matters stipulated by law, formulate and make decisions on key management policies and strategies, and supervise business execution. All the outside directors have extensive management experience or knowledge and perform a business execution supervisory role from an independent standpoint. Calbee has also been promoting greater diversity in the Board of Directors; two of the seven directors are non-Japanese, and one of the directors is a woman. Moreover, to clarify the directors' responsibility for management and increase opportunities for shareholders to confirm their confidence, from 2014 the term of office for directors has been changed to one year.

Discussion and proposals concerning nominations and remuneration are the responsibility of the Advisory Board. The board meets four times a year in principle, and has five regular members, including three outside directors.

Business execution is carried out by 25 executive officers, who have been given authority to manage specific organizations within the Group. This devolution of authority is part of efforts to create a management system that speeds up decision-making and clarifies business execution responsibility. Among the executive officers, senior executive officers are entrusted with especially important and wide-ranging duties and do not hold employee status. To promote rapid and appropriate decision-making by the directors, important business matters are discussed in the Management Council by a total of ten regular members (nine senior executive officers and the general manager of the IR and Strategic Planning Group) prior to discussion by the Board of Directors.

Audit & Supervisory System

Calbee has adopted the Audit & Supervisory Board system. The Audit & Supervisory Board consists of four Audit & Supervisory Board members, including three outside Audit & Supervisory Board members (one of whom is a woman). All of the Audit & Supervisory Board members bring a high level of expertise and knowledge to their role of monitoring and auditing the management of Calbee.

As part of this auditing role, the Audit & Supervisory Board members actively participate in meetings of the Board of Directors and other management meetings, auditing and monitoring the activities of directors and executive officers to ensure no problems arise in business execution.

The Audit & Supervisory Board members also conduct systematic audits at Group companies in coordination with the Audit & Supervisory Board members at each company and Calbee's Internal Audit Section.

For internal audits, we have an Internal Audit Section, which has a dedicated staff of five and is under the direct supervision of the President & COO. The section is responsible for conducting internal audits of the whole Group in accordance with annual audit plans. The Internal Audit Section regularly exchanges opinions with Audit & Supervisory Board members about the results of internal audits.

Attendance at Board of Directors and Audit & Supervisory Board Meetings

Outside Directors

Name	Attendance at Board of Directors Meetings
Yuzaburo Mogi	100.0%
Koji Kioka	100.0%
Kazuo Ichijo	100.0%
Ümran Beba	75.0%
Hong-Ming Wei*	100.0%

*Mr. Wei assumed the post in June 2013

Outside Audit & Supervisory Board Members

Name	Attendance at Board of Directors Meetings	Attendance at Audit & Supervisory Board Meetings
Tadashi Ishida	100.0%	100.0%
Yoji Inaba	100.0%	100.0%
Tomomi Yatsu	100.0%	100.0%

Executive Remuneration

Calbee's executive remuneration system is highly transparent and incorporates objective perspectives. Specifically, it is decided upon after being discussed by the Advisory Board, which includes three outside directors.

The basic remuneration paid to members of the Board of Directors and the Audit & Supervisory Board is within the total allowance for annual remuneration decided by resolution of the General Meeting of Shareholders. Directors' bonuses and retirement benefits for members of the Board of Directors and the Audit & Supervisory Board are set after approval of the General Meeting of Shareholders.

Remuneration for Calbee directors and executive officers comprises basic remuneration commensurate with executive duties, bonuses paid in accordance with the Company's business results for each fiscal year, executive retirement benefits linked to performance during the period of appointment, and stock options.

Outside directors and part-time Audit & Supervisory Board members receive only a fixed basic remuneration due to the importance of their supervisory function from an independent perspective.

Furthermore, adoption of a performance-linked stock compensation plan called the BIP (Board Incentive Plan) Trust for directors and senior executive officers was approved at the General Meeting of Shareholders held in June 2014. The plan grants shares of Calbee stock to directors and senior executive officers after their appointments and is linked to the degree of attainment of the Company's performance during their appointment. The Company plans to grant shares from 2015 onward. The scheme is designed to increase the Company's corporate value from a medium- to long-term perspective and to help directors and senior executives to share a common sense of interest with shareholders.

Total Remuneration by Executive Classification, Type of Remuneration, and Number of Eligible Recipients

Executive classification	Total remuneration by type (millions of yen)	Total remuneration by type (millions of yen)				Number of eligible executives
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	253	120	—	89	44	2
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	38	21	—	12	6	1
Outside directors and Audit & Supervisory Board members	136	118	—	12	6	8

Total Remuneration Paid to Individual Directors

Name	Total remuneration (millions of yen)	Executive classification	Total remuneration by type (millions of yen)			
			Basic remuneration	Stock options	Bonuses	Retirement benefits
Akira Matsumoto	126	Chairman of the Board & CEO, Representative Director	60	—	44	22
Shuji Ito	126	President and COO, Representative Director	60	—	44	22

(Note) Only individuals with total remuneration exceeding ¥100 million have been shown.

Compliance

Calbee considers compliance with the law and with social norms to be the supporting pillar of its business activities. In 2006, we formulated the Calbee Group Code of Conduct and established the Group Conduct Guidelines. We are also working to embed and increase compliance awareness by distributing Ethics Cards and Compliance Guidebooks to all employees, and through measures such as position-specific training, e-learning courses, and management training.

Calbee has also established the Ethics and Risk Management Committee, headed by the President & COO, which promotes compliance and risk management activities throughout the entire Calbee Group. In addition, Calbee has established the Ethics and Risk Management Advisory Board to complement activities conducted by the Ethics and Risk Management Committee. The board provides advice and proposals to the Ethics and Risk Management Committee from an objective standpoint.

Ethics and Risk Management Advisory Board

Chairperson	Outside expert (lawyer)
Members	President & COO, General Manager of Human Resources & General Affairs Group, General Manager of Administration Division, and 3 external experts
Secretariat	Ethics and Risk Management Division
Meeting frequency	Once every month, in principle

Ethics and Risk Management Committee

Chairperson	President & COO
Members	General managers of each division and presidents of subsidiaries
Secretariat	Ethics and Risk Management Division
Meeting frequency	Once every quarter, in principle

Risk Management

To address risk management, the Ethics and Risk Management Committee was set up to comprehensively and accurately identify and assess all risks that could have a major impact on the Group's operations in order to minimize any losses. The committee analyses risks facing the Group and examines measures to mitigate any impact, maintains relevant regulations, and submits proposals to the Board of Directors when necessary. Calbee also formulates plans for minimizing damage and swiftly recovering business operations in the event of crisis situations that could have a major impact on management. These include action plans to deal with misconduct, product contamination, and the event of a major earthquake striking Tokyo.

Furthermore, to enhance and promote management of Calbee's intellectual property, the Intellectual Property Management Section of the Legal Department manages the Company's trademarks and copyrights, protects the Company and product trademarks by registering them around the world, and works to quickly discover and respond to infringements by keeping a close watch on similar trademarks.

IR Activities

Disclosure Policy

Calbee seeks to remain a trustworthy company and to ensure that its stakeholders, including shareholders and investors, can form a clear understanding and evaluation of the Company's activities and performance. We therefore strive to provide continuous, fair, timely disclosure of information that has a bearing on the investment decisions of shareholders and investors.

Communication with Securities Analysts and Institutional Investors

Calbee holds earnings presentations every quarter. At the presentations, senior management explains the Company's future management plans and performance. In addition, we also had around 330 meetings with securities analysts and institutional investors in and outside of Japan each year.

Calbee is also proactive in communicating with overseas institutional investors and regularly conducts investor relations activities overseas. In the year ended March 2014, we held three meetings in Europe, North America, and Hong Kong.

Information Disclosure on our Company Website

Calbee created a dedicated IR Website in March 2011. Earnings reports, earnings presentation materials, annual reports, and other IR-related materials can be accessed from this website.

Calbee Group IR Website
http://www.calbee.co.jp/english/ir/

Board of Directors, Audit & Supervisory Board Members and Executive Officers

(As of June 25, 2014)

Directors

Akira Matsumoto
Chairman of the Board & CEO, Representative Director
Age 66

1972 Joined ITOCHU Corporation
1993 Appointed Representative Director and General Manager of the Ethicon Endo-Surgery business division, Johnson & Johnson Medical Company
1999 Appointed President, Johnson & Johnson K.K.
2008 Appointed Senior Advisor, Johnson & Johnson K.K.
2008 Appointed Director, CALBEE, Inc.
2009 Appointed Chairman of the Board & CEO, Representative Director, CALBEE (current position)

Shuji Ito
President & COO, Representative Director
Age 57

1979 Joined CALBEE, Inc.
2001 Appointed Executive Officer and COO of the East Japan Company, CALBEE
2004 Appointed Director, Executive Officer and COO of the Jagarico Company, CALBEE
2005 Appointed Director, Executive Managing Officer and the Controller of the Marketing Group, CALBEE
2009 Appointed President & COO, Representative Director, CALBEE (current position)

Yuzaburo Mogi
Independent Director
Age 79, Elected 2009

1958 Joined Kikkoman Corporation
1995 Appointed Representative Director, President and CEO, Kikkoman
2004 Appointed Representative Director, Chairman and CEO, Kikkoman
2009 Appointed Director, CALBEE, Inc. (current position)
2011 Appointed Honorary CEO and Chairman of the Board of Directors, Kikkoman (current position)

[Reason for Appointment]
Yuzaburo Mogi serves as director and honorary CEO and chairman of Kikkoman Corporation. He has also served as a director and an Audit & Supervisory Board member at many companies. Calbee judged that Mr. Mogi would make an important contribution to the Company's management based on his knowledge and experience as a corporate manager.

Koji Kioka
Independent Director
Age 72, Elected 2009

1964 Joined KAGOME CO., LTD.
2002 Appointed Representative Director, President, KAGOME
2009 Appointed Representative Director, Chairman, KAGOME
2009 Appointed Director, CALBEE, Inc. (current position)
2011 Appointed Director, Chairman, KAGOME
2012 Corporate Adviser, KAGOME (current position)

[Reason for Appointment]
Koji Kioka has served as president and as chairman of KAGOME CO., LTD. He also has expert knowledge of the food industry. Calbee judged that Mr. Kioka would make an important contribution to the Company's management based on his knowledge and experience as a corporate manager in the food industry.

Kazuo Ichijo
Independent Director
Age 55, Elected 2009

1984 Received MA, Graduate School of Social Sciences, Hitotsubashi University
1995 Received PhD in Business Administration, Graduate School of Business Administration, University of Michigan
2003 Appointed Adjunct Professor, Organizational Behavior and Management, IMD (current position)
2007 Appointed Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
2009 Appointed Director, CALBEE, Inc. (current position)
2014 Appointed Professor and Dean of the Graduate School of International Corporate Strategy, Hitotsubashi University (current position)

[Reason for Appointment]
Kazuo Ichijo has a high level of specialist knowledge, and Calbee judged that Professor Ichijo would make an important contribution to the Company's management from a wide international and social perspective based on his knowledge and experience.

Ümran Beba
Director
Age 49, Elected 2010

1994 Joined Frito-Lay Turkey
2009 Appointed South East Europe Region President, PepsiCo, Inc.
2010 Appointed Asia Pacific Region President, PepsiCo
2010 Appointed Director, CALBEE, Inc. (current position)
2013 Appointed Senior Vice President and Chief HR Officer, PepsiCo AMEA (current position)

[Reason for Appointment]
Ümran Beba has an expert knowledge of the global food industry gained through her long involvement in the snack business at PepsiCo Group. Calbee judged that Ms. Beba would make an important contribution to the Company's management based on her knowledge and experience as a multinational corporate manager.

Hong-Ming Wei
Director
Age 36, Elected 2013

2003 Appointed Manager, Wei Chuan Foods Corporation
2006 Appointed Assistant Vice President, Tingyi (Cayman Islands) Holding Corp.
2007 Appointed Board Director, Wei Chuan Foods Corporation (current position)
2008 Appointed Observer on the Board, Ting Hsin (Cayman Islands) Holding Corp. (current position)
2008 Appointed Vice President, Tingyi (Cayman Islands) Holding Corp.
2013 Appointed Director, CALBEE, Inc. (current position)

[Reason for Appointment]
Hong-Ming Wei has served as Vice President of Tingyi (Cayman Islands) Holding Corp. and Calbee judged that Mr. Wei would make an important contribution to the Company's management based on his knowledge and experience.

Audit & Supervisory Board Members

Tadashi Ishida
Independent Audit & Supervisory Board Member
Age 70, Elected 2011

1974 Joined Arthur Young, Tokyo Office
1980 Joined Asahi & Co. (now KPMG AZSA LLC)
1980 Registered as Certified Public Accountant (Japan)
2003 Appointed CFO & Executive Vice President, McDonald's Co. (Japan), Ltd.
2011 Appointed Statutory Audit & Supervisory Board Member, CALBEE, Inc. (current position)

[Reason for Appointment]
Tadashi Ishida has high-level specialist knowledge as a certified public accountant and wide-ranging practical experience gained through appointments as a member of the Boards of Directors and the Audit & Supervisory Boards at operating companies and as a Senior Research Fellow at the Japan Association for CFOs. Calbee judged that Mr. Ishida would make an important contribution to the Company's audits based on his knowledge and experience.

Isao Hirakawa
Age 58, Elected 2012

1980 Joined Kanebo, Ltd.
2006 Appointed Administrative Management Director, Kanebo
2008 Appointed Executive Officer and Chief Financial Officer, CALBEE, Inc.
2010 Appointed Executive Officer and General Manager of Finance & Accounting Group, CALBEE
2012 Appointed Statutory Audit & Supervisory Board Member, CALBEE (current position)

Tomomi Yatsu
Independent Audit & Supervisory Board Member
Age 54, Elected 2009

1986 Joined Sanwa-Tohmatsu Aoki (now Deloitte Touche Tohmatsu LLC)
1990 Registered as a Certified Public Accountant (Japan)
2001 Registered as an Attorney-at-Law
2001 Joined New Tokyo International Law Office (now Bingham McCutchen Murase, Sakai Mimura Aizawa — Foreign Law Joint Enterprise)
2007 Appointed Partner, Sakai Mimura Aizawa — Foreign Law Joint Enterprise (current position)
2009 Appointed Statutory Audit & Supervisory Board Member, CALBEE, Inc. (current position)

[Reason for Appointment]
Tomomi Yatsu has a wealth of experience in her work as a certified public accountant and a lawyer and has experience as an outside Audit & Supervisory Board member at other companies. Calbee judged that Ms. Yatsu would make an important contribution to the Company's audits based on her knowledge and experience.

Akira Kondoh
Independent Audit & Supervisory Board Member
Age 69, Elected 2014

1967 Joined Sumitomo Bank, Limited (now Sumitomo-Mitsui Banking Corporation)
1989 Appointed President, Sumitomo Bank Capital Markets, Inc., New York
1997 Appointed Managing Director, Sumitomo Bank, Limited, and Head of the Americas and Europe (stationing in NY)
1999 Appointed Deputy President, Daiwa Securities SB Capital Markets Co., Ltd.
2000 Appointed Corporate Senior Executive Vice President, Sony Corporation
2004 Appointed Vice Chairman, AIG East Asia Holdings Management Inc.
2009 Appointed President and CEO, Fuji Fire and Marine Insurance Company, Limited
2011 Appointed Vice Chairman, Chartis Far East Holdings KK (now AIG Japan Holdings) (current position)
2014 Appointed Statutory Audit & Supervisory Board Member, CALBEE, Inc. (current position)

[Reason for Appointment]
Akira Kondoh has been appointed to key posts in a large variety of companies, including executive positions. Calbee judged that Mr. Kondoh would make an important contribution to the Company's audits based on his knowledge and experience.

Executive Officers

Executive Managing Officers

Masatoshi Aki
Chief Technology Officer

Makoto Ehara
Senior Assistant to the President and President and Representative Director of Japan Frito-Lay Ltd.

Senior Executive Officers

Shoji Tobayama
General Manager of New Business Development Group and Controller of Human Resources & General Affairs Group and Administration Division

Takeshi Taniguchi
General Manager of Operation Group

Masakazu Fujii
Controller of Regional Business Divisions, Sales and Convenience Store Group

Yoshihiko Hosokawa
President & Representative Director of Calbee Potato, Inc. (Appointed June 26, 2014)

Koichi Kikuchi
Chief Financial Officer, General Manager of Information System Group and Controller of IR and Strategic Planning and Corporate Communication Group

Executive Officers

Kazuhiro Nakamura
General Manager of Hokkaido Division

Naosuke Takaoka
General Manager of East Japan Division

Tomoko Fukuyama
General Manager of Central Japan Division

Masaru Komada
General Manager of West Japan Division

Hideki Ishibe
General Manager of Sales Group

Satoshi Eguchi
General Manager of Convenience Store Group

Naoya Iwasaki
General Manager of Marketing Group

Hiroaki Yamasaki
General Manager of R&D Group

Akira Imoto
General Manager of Quality Assurance Group

Hideo Abe
General Manager of Engineering Department

Chisa Hayakawa
General Manager of IR and Strategic Planning Group

Ayako Goto
General Manager of Corporate Communication Group

Shinobu Egi
General Manager of Human Resources & General Affairs Group

Kaoru Ishigaki
General Manager of Administration Division

Sho Keiei
General Manager of Overseas Business Division I

Yutaka Okabe
General Manager of Overseas Business Division II

Corporate Social Responsibility

Basic Approach on CSR

The Calbee Group's vision is to be respected, admired and loved as a corporate group by its customers, suppliers and distributors, its employees and their families, communities, and its shareholders. The Group's CSR approach is designed to realize this vision.

We fulfill our responsibility to society as a Group by conducting CSR activities covering many areas including quality control, social contributions, and environmental protection.

Initiatives to Ensure Safety and Security

Providing customers with products that are safe and secure is the most basic duty of any food product manufacturer. At Calbee, we have determined our paramount responsibility to customers to be "quality," predicated on safety and security, followed by "cost," and then "supply."

We conduct thorough quality control at every step in the process, from procurement of raw materials to production and sales. In this way, we strive to provide customers with high-quality products and services that they can rely on.

Information Disclosure to Customers and Traceability

One way that we make sure we always supply high-quality products to customers is to work with potato growers to improve the quality of their potatoes, which are the main ingredient for *Potato Chips*. We also conduct inspections of predetermined items at each step in the process in the field and storage facilities and in the factories. Moreover, Calbee has actively pursued measures to improve information disclosure, becoming the first company in the Japanese snack food industry to print the manufacturing date on its packages in 1973. Today, Calbee's product packaging displays the best-before date, manufacturing plant ID code, manufacturing line and manufacturing time, among other information.

Product packaging display (front and back)

By managing this information on quality history and quality inspection results, we enable traceability functions, which help each division to undertake quality improvement activities.

Initiatives at Factories

Calbee factories produce a wide variety of products every day, covering a range of different flavorings, materials, and specifications. Formerly, we used a system of visual checking by workers when they used raw materials and packaging materials. However, since March 2008, we have been phasing in a new system that links on-site IT system to the production facilities to prevent operational errors in the manufacturing process and relieve psychological stress on workers.

Calbee makes ongoing improvements to its quality assurance activities by receiving annual third-party audits, including company-wide ISO 9001 certification and AIB Food Safety audits and guidance.

Contribution to Local Communities

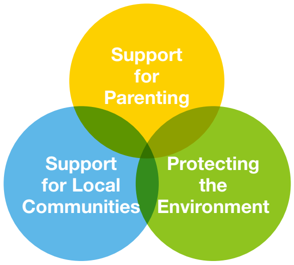
Basic Policy

The Calbee Group has Social Contribution Committees in each region to facilitate employee-driven activities that tie in closely with local communities. Our activities are based on our Social Contribution Mission Statement and Key Themes.

Social Contribution Mission Statement
As employees of the Calbee Group and as good citizens, we endeavor to contribute to local communities where we work and to global society as a whole.

Specifically, we continued our activities from the previous year, including a confectionery and snack food contest where we gathered ideas from Kanto Region elementary school students and created test products from the top entries. In volunteer activities, we helped the

Key Themes



Recovery volunteer activities in an area damaged by flooding during the typhoon

recovery of flood-damaged areas following Typhoon No. 18, which struck in September 2013, and made efforts to plant greenery and clean up around the Group's factories and offices. We also supported sports events. By fulfilling its responsibility as a member of the local community, Calbee seeks to contribute to a common society for the whole world.

Support for Areas Affected by the Great East Japan Earthquake

The Calbee Group continues to support communities and people who were affected by the Great East Japan Earthquake in March 2011.

The Great East Japan Earthquake Orphans' Fund was jointly established by Calbee, KAGOME CO., LTD. and ROHTO Pharmaceutical Co., Ltd. as a vehicle for helping children orphaned in the Great East Japan Earthquake enter higher education over the next 25 years. In the three years since its establishment, 322 students have been able to advance to higher education with assistance from the fund (105 students decided on a higher education course in the third year, fiscal 2014). Twenty-seven of these young people have completed their formal education at short-term universities and vocational schools, and taken their first step into the world as working adults. In fiscal 2014, the Calbee Group donated ¥40 million (including donations from 705 employees).

Students who received support from the Great East Japan Earthquake Orphans' Fund in its third year of operation

Calbee also continued its efforts to support potato cultivation at an agricultural high school in Miyagi Prefecture—an initiative which started in fiscal 2013. We supported a project to conduct presentation sales at two supermarkets in Miyagi Prefecture of the potatoes harvested at the school and products made using these potatoes as ingredients. We also conducted our Calbee Snack School and *Furugura* Taste-Test Party at a nursery school in Ishinomaki City.

Sales of potatoes cultivated and harvested at an agricultural high school in Miyagi Prefecture

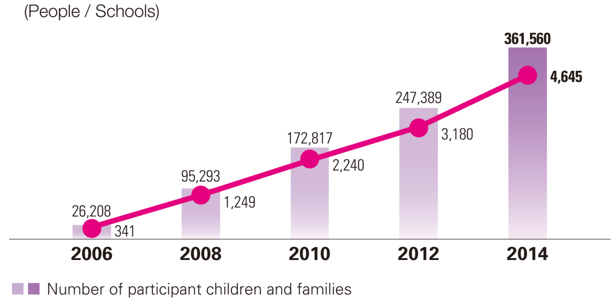
Food Communication

The Calbee Group is active in promoting proper understanding of snack foods. Our activities include providing useful information on enjoyable diets and offering consumers experiences.

Since 2003, the Calbee Group has run the Calbee Snack School, a program of elementary school visits that offers children throughout Japan a hands-on learning experience. The program is designed for children, who are the next-generation of society, and aims to use snack foods in children's day-to-day environments to help them learn how to have enjoyable diets by cultivating correct dietary habits and self-control.

The 2005 Basic Act on Food Education makes dietary education a compulsory subject in schools. Calbee has received invitations from many schools, and approximately 360,000 children and their families at around 4,600 schools have participated in the Calbee Snack School since its inception.

Calbee Snack School Activities
(People / Schools)



Environmental Initiatives

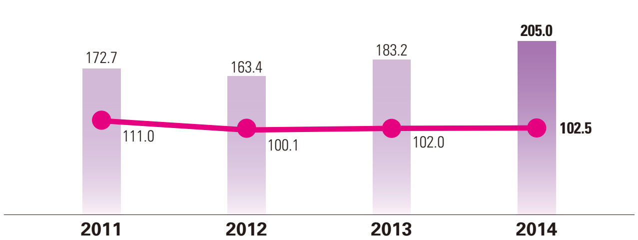
Basic Policy

The Calbee Group formulated the Calbee Group Environmental Declaration in May 2012. The declaration calls for the Group to use nature's gifts carefully, and to return the Earth as close as possible to its natural state. As a member of today's global society, the entire Group will make a concerted effort to reduce CO_2 emissions, promote energy saving, reduce waste emissions, save water and protect the environment. Our targets for fiscal 2021 are to reduce the CO_2 emissions rate by 11% compared with fiscal 2010 levels (1% annual reduction), and to reduce the waste discharge rate and wastewater discharge rate by 30%.

Combating Global Warming

The Calbee Group calculates and ascertains the CO_2 emissions in its value chain for each product, from procurement of raw materials, production, distribution, and sales to recycling of waste products, in order to reduce CO_2 emissions. In manufacturing activities, we took steps to increase the production efficiency of our factories to control energy consumption. Specifically, we lifted the capacity utilization of the factories by increasing product sales and concentrating the production of small-lot items into single factories. Moreover, we continuously promoted use of biodiesel fuel in product transportation. However, as a result of a substantial increase in the ratio of energy use from thermal power stations, the Group's CO_2 emissions rate for fiscal 2014 was 102.5 tons per ¥100 million of net sales (up 0.5% year on year).

CO_2 Emissions and Emissions per ¥100 Million of Net Sales

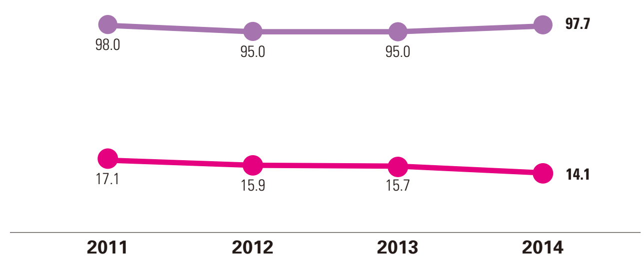


CO_2 emissions rate per ¥100 million of net sales (tons of CO_2 / ¥100 million of net sales)
CO_2 emissions (thousands of tons)
Source: Calbee Group companies in Japan

Using Resources Efficiently

The Calbee Group is promoting initiatives to reduce and recycle waste to help realize a recycling-oriented society. In our manufacturing activities, we promote zero emissions and recycling. Specific initiatives include separation and collection of waste, limiting the creation of waste, and making effective use of leftover vegetable matter such as potato skins and product losses. In fiscal 2014, the Group's waste discharge rate was 14.1 tons per ¥100 million of net sales (down 10.2% year on year), and the recycling rate was 97.7% (up 2.7 percentage points year on year).

Waste Discharge Rate and Recycling Rate

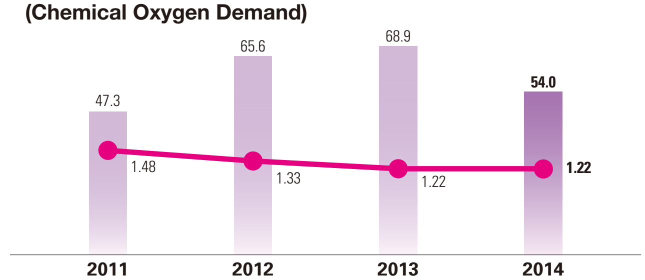


Waste discharge rate per ¥100 million of net sales (tons of waste / ¥100 million of net sales)
Recycling rate (%)
Source: Calbee Group companies in Japan

Use of Water Resources

The Calbee Group purifies wastewater and is working to implement water recycling and reuse in the future. Continuing from fiscal 2013, the Group is concentrating the production of small-lot items into single factories to reduce the number of production changeover operations and thereby reduce the volume of water usage. In fiscal 2014, the Group's wastewater discharge rate was 1.22 thousand m^3 per ¥100 million of net sales (unchanged year on year). We will continue striving to reduce water usage and to use it more efficiently going forward.

Wastewater Discharge Rate and COD (Chemical Oxygen Demand)



Wastewater discharge rate (m^3 / ¥100 million of net sales)
COD (tons)
Source: Calbee Group companies in Japan

Financial Section

Contents

CFO Message

Koichi Kikuchi
Senior Executive Officer
Chief Financial Officer

Joined CALBEE, Inc. in February 2012 after working at Sumitomo Mitsui Trust Bank, Limited, PricewaterhouseCoopers Co., Ltd, and IBM Japan, Ltd. Appointed Executive Officer and CFO, CALBEE, Inc. in February 2012. Appointed Senior Executive Officer and CFO in April 2014.

The Fruits of Five Years of Work

Under the new management team started in 2009, we have been executing financial strategies that interlock with "Innovation," in the form of six growth strategies, and "Cost Reduction."

We keep management KPIs as simple as possible and check on the progress in a dashboard format reported to the Board of Directors monthly. The dashboard immediately tells us which items are falling behind and what recovery actions need to be taken.

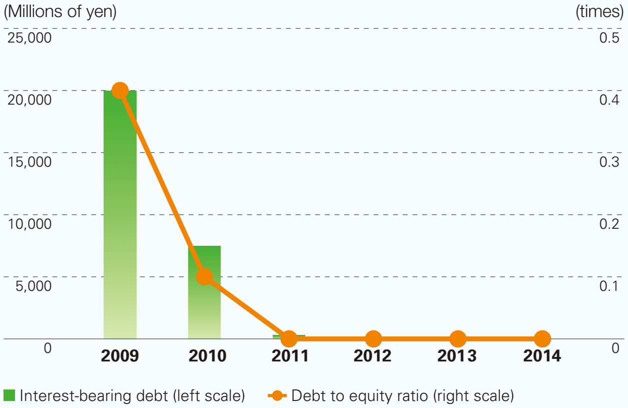
Balance Sheet / Cash Flow Management

We have worked on the turnover rate of our working capital, like accounts receivables and inventories, and disposed of fixed assets that were not driving the business.

We have also set criteria for new capital investments through our Investment Advisory Committee where each investment must bring us either business growth with profit, cost reduction, or safety/security promotion. The committee typically sees IRR of 15% as a hurdle rate in case of growth investment opportunities, and investments of more than ¥500 million must also pass a rigorous check by the outside directors.

These actions have generated free cash, enabling us to fully repay the ¥20 billion of borrowings, and, as a result, our balance sheet is healthy now.

Interest-bearing Debt / Debt to Equity Ratio



Initiatives to Further Increase Shareholder Value

By executing our management and financial strategies over these past five years, we have greatly improved the Company's ROE. In the fiscal year ended March 31, 2014, ROE was 13.1%, up 8.1 percentage points from the fiscal year ended March 31, 2009. This may be an acceptable level for a Japanese food products company, but our goal is to drive more efficiency to join global peers.

Our challenges now are how to best allocate free cash among internal reserves, investments, and returns to shareholders. While we plan to increase our dividend payout ratio gradually to reach a global standard, we believe that we are at the stage where cash investments are needed for our overseas business expansion and for other purposes that will lead to increased shareholder value.

The role of the CFO is to support the realization of our growth strategies from a financial perspective, by asking how we can find lower risks and higher returns. I intend to fulfill my role by further increasing our capital efficiency for Calbee as a global company. I would like to ask all of our shareholders to continue supporting our efforts.

Six Years Summary

Years ended March 31, 2009, 2010, 2011, 2012, 2013 and 2014

	Millions of yen						Thousands of U.S. dollars (Note 2)
	2014	2013	2012	2011	2010	2009	**2014**
For the Year:							
Net sales	**¥ 199,941**	¥ 179,411	¥ 163,269	¥ 155,529	¥ 146,453	¥ 137,377	**$ 1,942,684**
Operating income	**19,717**	15,791	12,247	10,717	9,534	4,408	**191,581**
Operating margin (%)	**9.9**	8.8	7.5	6.9	6.5	3.2	—
Net income	**12,086**	9,441	7,097	4,253	4,017	2,524	**117,435**
Net income margin (%)	**6.0**	5.3	4.3	2.7	2.7	1.8	—
ROE (%)	**13.1**	11.4	9.6	6.5	7.1	5.0	—
Research and development costs	**2,162**	2,288	1,811	2,213	3,097	3,064	**21,003**
Capital expenditures	**6,393**	7,299	5,423	4,050	3,390	5,079	**62,113**
Depreciation and amortization	**5,961**	6,319	6,676	7,244	7,915	8,325	**57,917**
Per Share (¥/$) (Note 3)**:**							
Net income	**91.46**	72.18	55.07	36.62	36.01	24.57	**0.89**
Net assets	**729.93**	664.55	596.66	550.14	529.44	502.23	**7.09**
Cash dividends	**22.00**	15.50	10.50	7.00	6.00	5.00	**0.21**
Payout ratio (%)	**24.1**	21.5	19.1	19.1	16.7	20.3	—
At Year-End:							
Total assets	**140,967**	124,793	108,475	99,394	93,658	92,170	**1,369,672**
Net assets	**104,466**	92,685	80,418	72,925	63,770	53,932	**1,015,024**
Working capital	**50,161**	36,303	25,211	16,132	123	(5,663)	**487,376**
Interest-bearing debt	–	7	7	300	7,493	19,984	—
Equity ratio (%)	**69.1**	70.2	71.6	70.7	65.2	56.0	—
Debt to equity ratio (times)	**0.0**	0.0	0.0	0.0	0.1	0.4	—
Number of consolidated subsidiaries	**22**	21	18	18	18	17	—
Number of employees (consolidated)	**3,341**	3,352	3,053	2,911	2,864	2,657	—
Cash Flows:							
Net cash provided by operating activities	**23,479**	17,329	7,050	16,665	19,492	11,160	**228,124**
Net cash used in investing activities	**(17,042)**	(13,000)	(5,348)	(620)	(11,378)	(4,740)	**(165,580)**
Net cash providing by (used in) financing activities	**(383)**	607	(411)	(2,125)	(6,954)	(6,389)	**(3,722)**
Cash and cash equivalents at end of year	**31,593**	25,332	19,449	18,238	4,469	3,365	**306,963**

Notes:
1. Consolidated financial statements prepared from 2009.
2. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥102.92 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2014.
3. A 50-to-1 stock split was conducted on January 14, 2011, and a 4-to-1 stock split was implemented on October 1, 2013. Per share figures were retroactively adjusted to reflect these stock splits.

Management's Discussion and Analysis

Operating Results

Net Sales

In the fiscal year ended March 31, 2014 (fiscal 2014) consolidated net sales increased ¥20,530 million (11.4%) year on year to ¥199,941 million, mainly due to strong sales in the production and sale of snacks and other foods business.

Production and Sale of Snacks and Other Foods Business

Net sales in the production and sale of snacks and other foods business totaled ¥196,920 million, an increase of 11.3% year on year.

Snack Foods

In snack foods, sales rose 11.2% year on year to ¥173,146 million, due to growth in sales of potato-based snacks along with growth in the overseas business.

1. Potato-based Snacks

Sales of potato-based snacks rose 7.8% year on year to ¥111,888 million. *Potato Chips* gained domestic market share through extra-volume sales campaigns for core products *Usushio* (lightly salted), *Consome Punch* (consommé), and *Norishio* (laversalt); an extended lineup of limited-time products in the *Kata-Age Potato* series; and the launch of *Deepo*, a new deep-cut sliced potato chip product, as well as an increase in orders for private-brand products. Meanwhile, sales also benefitted from brisk sales of *Jagarico* large-size packages.

2. Flour-based Snacks

Sales of flour-based snacks rose 1.9% year on year to ¥21,857 million, boosted by strong sales of core products such as *Kappa Ebisen* (prawn crackers) and *Sapporo Potato*.

3. Corn-based Snacks

Sales of corn-based snacks increased 10.0% year on year to ¥14,620 million, driven by strong sales of the famous *Garrett Popcorn Shops* brand from Chicago, U.S.A. and sales growth of core product *Mike Popcorn*.

4. Domestic Other Snacks and Overseas Snacks

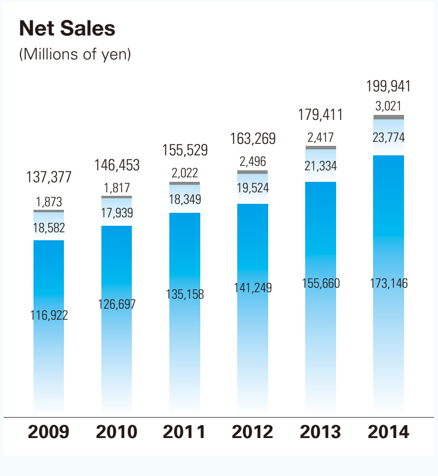
Sales of domestic other snacks and overseas snacks climbed 44.6% year on year to ¥24,781 million on the back of sales growth for *Vegips* in domestic other snacks and sales growth for overseas snacks in North America, China, and other areas.

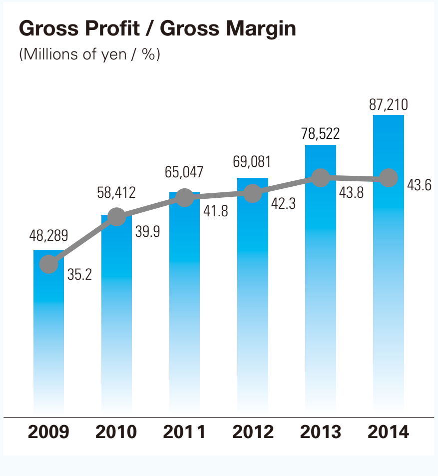
Other Food Products

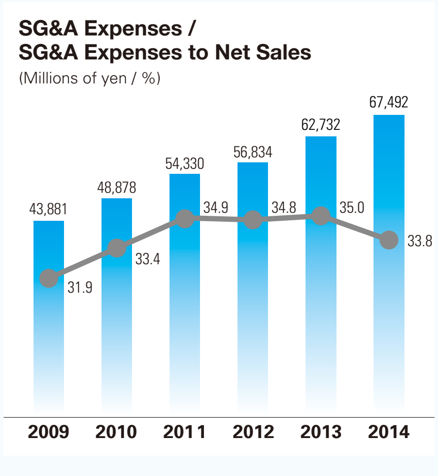
In other food products (processed bread and cereals), sales rose 11.4% year on year to ¥23,774 million, driven in part by strong sales growth of the cereal product *Furugura* (fruit granola).

Other Businesses

In other businesses, sales increased 25.0% to ¥3,021 million due to an increase in sales in the distribution business and promotional sales tools.







Gross Profit

Gross profit increased ¥8,687 million year on year to ¥87,210 million, mainly reflecting higher profits on higher sale, and the effect of cost reductions. The gross margin declined 0.2 of a percentage point to 43.6%; however, it improved 0.3 of a percentage point on an actual basis when considering the effect of transferring an amount equivalent to the distribution business cost (¥941 million) to cost of sales from the distribution expenses portion of selling, general and administrative expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥4,761 million year on year to ¥67,492 million. The increase was mainly due to aggressive spending on sales promotion aimed at expanding sales domestically and overseas.

Operating Income

As a result of the above, operating income rose ¥3,927 million (24.9%) year on year to ¥19,717 million. The operating margin increased by 1.1 percentage points to 9.9%.

Other Income (Expenses)

Net other income was ¥819 million, up ¥630 million year on year. The main factors were foreign exchange gains of ¥773 million and gain on sales of investment securities of ¥376 million. The gains were partially offset by a loss on cancellation of outsourcing agreement of ¥253 million and an impairment loss of ¥186 million.

Net Income

As a result of the above, net income rose ¥2,646 million (28.0%) year on year to ¥12,086 million.

Net income per share was ¥91.46. ROE improved 1.7 percentage points to 13.1%.

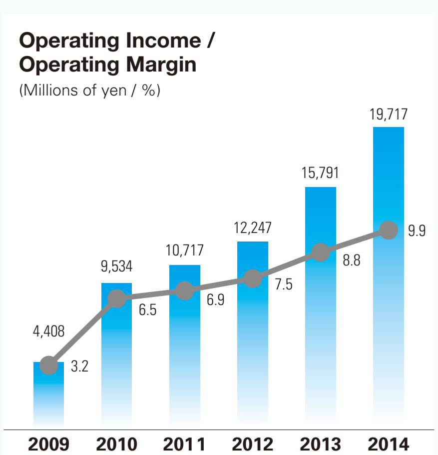
Financial Position

Assets, Liabilities and Net Assets

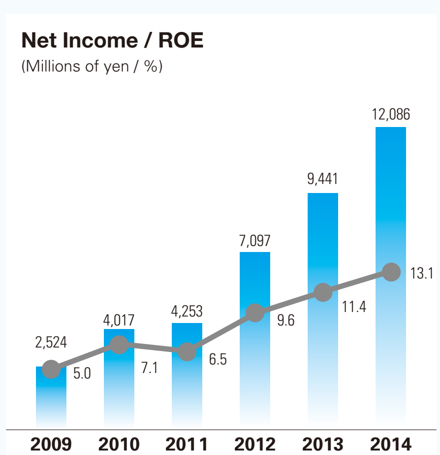
Total assets as of March 31, 2014 were ¥140,967 million, an increase of ¥16,174 million from the end of the previous fiscal year. The primary contributing factors were increases in cash and deposits, marketable securities, inventories and property, plant and equipment, net. Marketable securities increased due to acquisition of funds in trust and other factors. Property, plant and equipment, net increased due to expanding the production lines for the strong-selling *Furugura* and the acquisition of plant facilities in Taiwan and elsewhere overseas.

Total current liabilities increased ¥2,205 million to ¥28,673 million due to increases in notes and accounts payable and others.

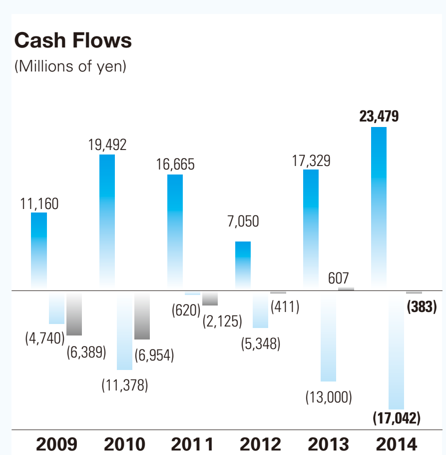
Total non-current liabilities increased ¥2,187 million to ¥7,827 million, mainly due to the inclusion on the balance sheet of net defined benefit liabilities.



Operating income Operating margin



Net income ROE



Net cash provided by operating activities
Net cash used in investing activities
Net cash provided by (used in) financing activities

Total net assets increased ¥11,781 million to ¥104,466 million, due to increases in retained earnings and minority interests.

The equity ratio decreased 1.1 percentage points from the end of the previous fiscal year to 69.1% due to accounting method revisions related to retirement benefits. Net assets per share was ¥729.93.

Cash Flows

Cash and cash equivalents as of March 31, 2014 were ¥31,593 million, ¥6,261 million higher than at the end of the previous fiscal year.

Cash flows and the main factors behind them during fiscal 2014 were as follows.

1. Cash Flows from Operating Activities

Operating activities provided net cash of ¥23,479 million, compared with net cash provided of ¥17,329 million in the previous fiscal year. The main positive factors were income before income taxes and minority interests of ¥20,536 million, depreciation and amortization of ¥5,961 million, and decrease in notes and accounts receivables of ¥2,607 million. Factors having a negative effect on cash included income taxes paid of ¥8,353 million.

2. Cash Flows from Investing Activities

Investing activities used net cash of ¥17,042 million, compared to net cash used of ¥13,000 million in the previous fiscal year. The main uses of cash were ¥6,393 million in payments for acquisition of property, plant and equipment and intangible fixed assets and ¥11,995 million for the acquisition of marketable securities. Main factors adding to cash were ¥3,000 million for proceeds from redemption of securities and ¥3,863 million for proceeds from withdrawal of time deposits.

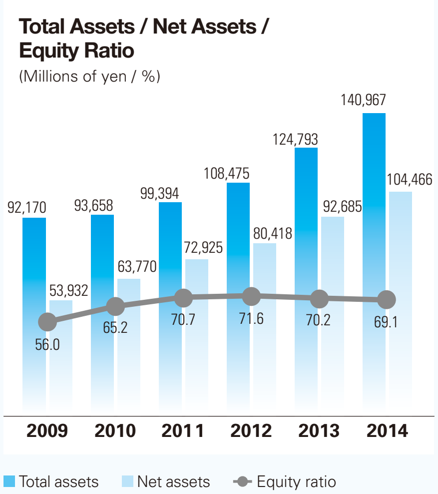
3. Cash Flows from Financing Activities

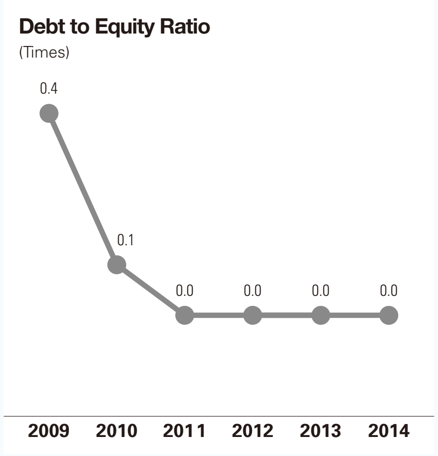
Financing activities used net cash of ¥383 million, compared with net cash provided of ¥607 million in the previous fiscal year. The main use of cash was ¥2,315 million for cash dividends paid, while cash inflows included ¥1,604 million in proceeds from stock issuance to minority shareholders.

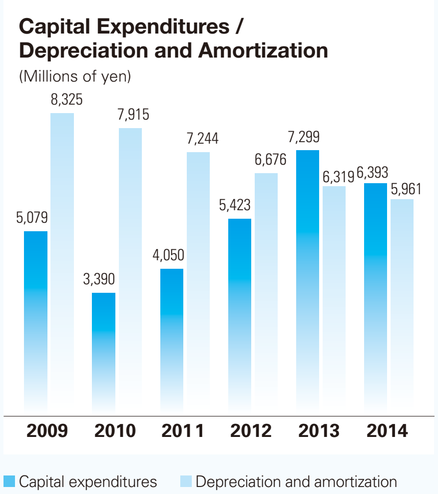
Capital Expenditures

In fiscal 2014, capital expenditures totaled ¥6,393 million, of which ¥4,577 million was for domestic operations and ¥1,816 million was for overseas operations. The main component of domestic capital expenditure was ¥1,025 million for expanding the production facilities for *Furugura* and ¥400 million for expanding the production facilities for *Kata-Age Potato*. Meanwhile, overseas capital expenditures included ¥474 million for operations in Taiwan and ¥352 million for operations in China.

The Company did not sell or dispose of any major facilities during fiscal 2014.







Business Risks

The major risks to which the Calbee Group (the Group) is exposed in its operations are described below. In the interests of full disclosure, information has also been provided on risks that are not anticipated to necessarily have a major impact on the business but have been deemed important to facilitate a better understanding of the Group's business activities.

Recognizing the possibility that such risks may materialize, the Group's policy is to avoid these risks where possible and to mitigate any impact in the event that they materialize. The risks and forward-looking statements described below are based on judgments made by the Group as of the date of publication of this report.

1. Product Development

The Group conducts research and development activities to provide customers with unique, value-added products that maximize the nutritional content and flavor of natural ingredients. Meanwhile, there is considerable change underway in the Group's operating environment owing to diversifying customer tastes, growing health awareness, and Japan's low birthrate and ageing society. The ability to rapidly respond to these changes and develop high-value-added products is becoming an increasingly important factor in the Group's business expansion. As such, the Group conducts research and development activities in accordance with annual plans in the areas of new product development, existing product improvement, cost reduction, and analysis of ingredients and nutrients. However, there is no guarantee that investment in these development activities will result in the successful launch of new products, and any divergence between research and development themes and market needs could have an impact on the Group's operating results and financial position.

2. Ingredient Procurement

In principle, imports of raw potatoes, the main ingredient of potato snacks such as *Potato Chips*, *Jagarico* and *Jagabee*, are not permitted into Japan. In order to secure sufficient supplies of domestically produced high-quality potatoes at a stable price, the Group has sought to build a procurement system based on ongoing grower contracts concluded since launching its first potato snacks. Although these grower contracts enable stable supplies, harvest conditions could prevent the Group from securing sufficient supplies of raw potatoes, resulting in sales opportunity losses and increased costs due to emergency procurement that could have an impact on the Group's operating results and financial position.

Moreover, changes in demand trends and fluctuations in the price of crude oil could effect procurement costs for a wide range of raw materials such as edible oils, other ingredients and product packaging, which could also have an impact on the Group's operating results and financial position.

3. Product Safety

Consumer demands for greater food safety have increased in recent years. In response, the Group strictly monitors the quality of ingredients and manufacturing processes and takes all possible precautions to ensure product quality and prevent foreign objects from entering its products. However, unforeseen problems related to ingredients and manufacturing processes could have an impact on the Group's operating results and financial position.

Furthermore, in April 2002, the Swedish government released the results of research showing that grilling or frying foods with high carbohydrate content can generate acrylamide, a carcinogen. Japan's Ministry of Health, Labour and Welfare has said it does not foresee any health impact from this substance for people who consume average amounts of this type of food, and at this point, there has been no impact on the Group's operating results. Nevertheless, this issue could develop in the future to the point where it has an impact on the entire snack food industry.

4. Competitive Risk

The Group has a stable share of the snack food market. However, intensifying competition from rival domestic companies, a significant influx of foreign capital into the market, or sector realignment due to M&A deals could have an impact on the Group's operating results and financial position.

In addition, choosing to lower prices in response to price reductions implemented by competitors could result in lower profit margins and other outcomes, which in turn could have an impact on the Group's operating results and financial position.

5. Global Expansion

The Group is using subsidiaries in the U.S., China, Hong Kong, Thailand, South Korea and Taiwan to expand its operations outside the Japanese market. The Group believes it is necessary to develop markets from a global perspective to deliver growth over the longer term. Going forward, the Group intends to expand its operations more rapidly and boost its competitiveness. However, efforts to develop its presence in global markets may not proceed as anticipated and the Group may have to review its growth strategy. In addition, as the Group expands its operations, changes in the political and economic conditions of a variety of countries and regions, as well as fluctuations in foreign exchange markets, could have an impact on the Group's operating results and financial position.

6. Relationship with Major Shareholder

As of March 31, 2014, FRITO-LAY GLOBAL INVESTMENTS B.V. (FLGI), a wholly owned subsidiary of PepsiCo, Inc., owned 20.00% of CALBEE, Inc. shares (after full dilution) making Calbee (the Company) an equity-method affiliate of PepsiCo. FLGI, which directly owns the shares of the Company, is a wholly owned PepsiCo subsidiary, so PepsiCo effectively makes all decisions regarding the exercise of common share voting rights. PepsiCo is one of the world's largest food and beverage makers and is listed on the New York Stock Exchange. Also, PepsiCo operates globally in the same snack food field as the Company via group companies, primarily its subsidiary Frito-Lay North America, Inc.

On June 24, 2009, the Company and PepsiCo concluded a strategic alliance, based on the understanding that combining management capabilities to generate synergies was necessary to deliver sustained growth for both companies. In order to reinforce the partnership with PepsiCo, the Company allocated new shares to PepsiCo's wholly owned subsidiary FLGI via a private placement, and at the same time, acquired all the shares of PepsiCo's subsidiary Japan Frito-Lay Ltd.

Under the strategic partnership, PepsiCo has agreed not to operate a snack food business in the Japanese market and therefore does not compete with the Company in Japan. Also, because no restrictions have been placed on overseas business development, the Company believes there are no limits on its management decisions or business development under the agreement.

The Company intends to maintain this strategic partnership and work toward boosting corporate value. However, in the future it may no longer be possible to generate synergies from the partnership in the event that PepsiCo makes changes to its management policy and business strategy. In addition, the PepsiCo Group could become a competitor in the Japanese market in the event that the partnership is dissolved for any reason. Any of these developments could have an impact on the Group's operating results and financial position.

a. Personnel Relationship

Currently, one person from the PepsiCo Group has been invited to sit on the Company's Board of Directors as an outside director. The Company made this invitation in order to benefit from the individual's detailed understanding of the global food industry and her knowledge and experience as a manager of a multinational company.

Name	Position at the Company	Position in the PepsiCo Group
Ümran Beba	Director	Senior Vice President and Chief HR Officer, PepsiCo AMEA

b. Business Relationship

The Company's subsidiary Japan Frito-Lay Ltd. receives imports of snack foods from Frito-Lay, Inc., a PepsiCo Group company. In addition, from April 2013, the Company's subsidiary Calbee North America, LLC sells snack foods to PepsiCo Group's Frito-Lay North America, Inc.

c. Capital Relationship

Under the strategic partnership with PepsiCo, the Company and PepsiCo have agreed that from the perspective of maintaining the strategic partnership, PepsiCo shall not own more than 20.00% of the Company's shares. In the future, PepsiCo's ownership ratio in the Company may be subject to change, owing to changes in the management policies or business strategies of PepsiCo or the Company, or as a result of other factors such as changes in the Company's internal or external business environment.

7. Legal Regulations

In the course of its business activities, the Group is subject to a range of legal regulations, including the Food Sanitation Act, Act against Unjustifiable Premiums and Misleading Representations, Measurement Act, Unfair Competition Prevention Act, Plant Protection Act, and Consumer Product Safety Act. The Group may incur additional costs to respond to revisions to these regulations or their abolishment and the implementation of new regulations, and this could have an impact on the Group's operating results and financial position.

The Group has also received a variety of permits and licenses necessary to conduct its business activities. However, the Group's business activities may be restricted if these permits and licenses are cancelled due to legal infringements or other reasons, which could have an impact on the Group's operating results and financial position.

8. Natural Disaster Risk

The Group conducts necessary periodic inspections of its manufacturing lines to avoid the risk of shutdowns to these lines. It has also built a stable product supply framework by dispersing its manufacturing sites. However, there is no guarantee that manufacturing facilities will not be damaged as a result of a natural disaster or other event. Any such damage to facilities could lead to a drop in sales and an increase in costs, which could have an impact on the Group's operating results and financial position.

9. Risks Related to Non-current Asset Impairment Losses

The Group owns a wide range of assets such as business facilities and real estate. The Group may be required to record impairment losses on these assets owing to factors such as the level of use, declining market prices, and anticipated cash flows. Recording of such losses could have an impact on the Group's operating results and financial position.

10. Risks Related to Intellectual Property Rights

The Group works to protect and manage its various intellectual property rights through a specialist department. It also strives to avoid infringements of rights owned by third parties. However, unauthorized use of the Group's intellectual property rights by a third party or pursuit of damages by a third party for infringement of their rights by the Group, could have an impact on the Group's operating results and financial position.

11. Environmental Risk

The Group is aiming to save energy and reduce CO_2 emissions by implementing initiatives to conserve energy based on the approach of curbing energy losses. This is part of its efforts to comply with environmental laws and regulations. However, the Group may have to invest in new facilities and change its waste disposal methods as a result of revisions to environmental regulations and this could have an impact on the Group's operating results and financial position.

Consolidated Balance Sheets

CALBEE, Inc. and Consolidated Subsidiaries
March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
Assets	**2014**	2013	**2014**
Current assets:			
Cash and deposits (Notes 6 and 13)	**¥ 18,784**	¥ 17,343	**$ 182,507**
Notes and accounts receivable (Note 6)	**17,392**	19,787	**168,989**
Marketable securities (Notes 6 and 7)	**29,998**	13,999	**291,467**
Inventories (Note 8)	**6,523**	5,662	**63,377**
Deferred tax assets (Note 10)	**2,829**	2,791	**27,483**
Others	**3,313**	3,193	**32,188**
Allowance for doubtful accounts	**(4)**	(4)	**(37)**
Total current assets	**78,834**	62,771	**765,975**
Property, plant and equipment:			
Land (Note 17)	**10,774**	10,791	**104,680**
Buildings and structures (Note 17)	**55,878**	54,008	**542,926**
Machinery and vehicles (Note 17)	**78,419**	75,295	**761,940**
Lease assets	**330**	503	**3,205**
Construction in progress (Note 17)	**1,010**	2,702	**9,809**
Others (Note 17)	**4,095**	3,787	**39,789**
	150,505	147,086	**1,462,348**
Accumulated depreciation	**(100,339)**	(97,632)	**(974,918)**
Property, plant and equipment, net	**50,166**	49,454	**487,430**
Investments and other assets:			
Investment securities (Notes 6 and 7)	**1,515**	1,347	**14,715**
Investments in affiliates (Notes 6 and 7)	**12**	12	**114**
Long-term loans	**230**	294	**2,233**
Deferred tax assets (Note 10)	**1,454**	538	**14,125**
Prepaid pension cost (Note 12)	**—**	2,291	**—**
Net defined benefit asset (Notes 3 and 12)	**1,891**	—	**18,377**
Goodwill	**3,347**	3,955	**32,523**
Others	**3,611**	4,235	**35,083**
Allowance for doubtful accounts	**(93)**	(104)	**(903)**
Total investments and other assets	**11,966**	12,569	**116,268**
Total assets	**¥ 140,967**	¥124,793	**$1,369,672**

Liabilities	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 5) 2014
Current liabilities:			
Notes and accounts payable (Note 6)	¥ 7,898	¥ 6,672	$ 76,738
Lease obligations (Note 9)	63	113	612
Other payables	3,740	3,892	36,337
Income taxes payable	5,324	5,032	51,732
Deferred tax liabilities (Note 10)	126	96	1,227
Allowance for bonuses	3,574	3,644	34,722
Allowance for directors' bonuses	218	193	2,116
Allowance for stock payments (Note 4)	14	—	134
Others	7,717	6,827	74,981
Total current liabilities	28,673	26,468	278,599
Non-current liabilities:			
Long-term debt (Note 9)	—	7	—
Lease obligations (Note 9)	83	145	811
Deferred tax liabilities (Note 10)	293	269	2,843
Allowance for employees' retirement benefits (Note 12)	—	3,973	—
Allowance for directors' retirement benefits	592	528	5,748
Net defined benefit liability (Notes 3 and 12)	6,134	—	59,604
Asset retirement obligations	640	632	6,218
Others	85	85	826
Total non-current liabilities	7,827	5,640	76,049
Net assets (Note 11):			
Shareholders' equity:			
Common stock:			
Authorized 2013— 44,000,000 shares			
Authorized 2014—176,000,000 shares			
Issued 2013— 32,937,450 shares			
Issued 2014—133,507,800 shares	11,946	11,587	116,071
Additional paid-in capital	11,514	11,155	111,875
Retained earnings	74,260	64,216	721,531
Treasury stock— 0 share in 2013			
104,232 shares in 2014	(262)	—	(2,546)
Total shareholders' equity	97,458	86,957	946,931
Accumulated other comprehensive income:			
Unrealized holding gain on securities	211	98	2,048
Foreign currency translation adjustments	973	500	9,456
Remeasurements of defined benefit plans (Note 3)	(1,266)	—	(12,303)
Total accumulated other comprehensive income (loss)	(82)	598	(799)
Subscription rights	35	51	337
Minority interests	7,056	5,080	68,555
Total net assets	104,466	92,685	1,015,024
Total liabilities and net assets	¥140,967	¥124,793	$1,369,672

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	2014
Net sales	¥199,941	¥179,411	$1,942,684
Cost of sales (Notes 8 and 15)	112,731	100,889	1,095,330
Gross profit	87,210	78,522	847,353
Selling, general and administrative expenses (Notes 14 and 15)	67,492	62,732	655,773
Operating income	19,717	15,791	191,581
Other income (expenses):			
Interest and dividend income	97	95	941
Interest expense	(6)	(2)	(55)
Foreign exchange gains	773	1,115	7,506
Gain on sale of property, plant and equipment (Note 16)	50	115	489
Gain on sales of investment securities	376	5	3,653
Loss on disposal of property, plant and equipment (Note 16)	(139)	(191)	(1,346)
Impairment loss (Note 17)	(186)	(314)	(1,806)
Product recall related costs	(69)	(371)	(672)
Loss on revision of outsourcing agreement	—	(323)	—
Loss on cancellation of outsourcing agreement	(253)	—	(2,454)
Other	175	60	1,699
Income before income taxes and minority interests	20,536	15,980	199,536
Income taxes (Note 10):			
Current	(8,502)	(7,258)	(82,606)
Deferred	270	943	2,626
	(8,232)	(6,315)	(79,980)
Income before minority interests	12,305	9,665	119,556
Minority interests	(218)	(224)	(2,120)
Net income	¥ 12,086	¥ 9,441	$ 117,435

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	2014
Income before minority interests	¥12,305	¥ 9,665	$119,556
Other comprehensive income (Note 18):			
Unrealized holding gain on securities	113	88	1,097
Foreign currency translation adjustments	900	1,788	8,742
Total other comprehensive income	1,013	1,877	9,839
Comprehensive income	¥13,317	¥11,542	$129,395
Comprehensive income attributable to the owners of the Company	¥12,672	¥10,589	$123,128
Comprehensive income attributable to minority interests	¥ 645	¥ 952	$ 6,267

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

		Millions of yen				
		Shareholders' Equity				
	Number of Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2012	32,540,950	¥11,252	¥10,820	¥56,142		¥78,214
Issuance of stock (exercise of subscription rights)	396,500	334	334			669
Cash dividends paid				(1,367)		(1,367)
Net income				9,441		9,441
Net changes during the year						
Balance at April 1, 2013	**32,937,450**	**11,587**	**11,155**	**64,216**		**86,957**
Share split	**98,942,850**					
Issuance of stock (exercise of subscription rights)	**1,627,500**	**360**	**360**			**719**
Cash dividends paid				**(2,042)**		**(2,042)**
Net income				**12,086**		**12,086**
Purchase of treasury stock					**¥(262)**	**(262)**
Net changes during the year						
Balance at March 31, 2014	**133,507,800**	**¥11,946**	**¥11,514**	**¥74,260**	**¥(262)**	**¥97,458**

	Millions of yen						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights	Minority Interests	Total Net Assets
Balance at April 1, 2012	¥ 10	¥ (560)		¥ (551)	¥ 85	¥2,669	¥ 80,418
Issuance of stock (exercise of subscription rights)					(35)		634
Cash dividends paid							(1,367)
Net income							9,441
Net changes during the year	88	1,061		1,149		2,410	3,559
Balance at April 1, 2013	**98**	**500**		**598**	**51**	**5,080**	**92,685**
Share split							
Issuance of stock (exercise of subscription rights)					**(16)**		**703**
Cash dividends paid							**(2,042)**
Net income							**12,086**
Purchase of treasury stock							**(262)**
Net changes during the year	**113**	**473**	**¥(1,266)**	**(680)**		**1,976**	**1,296**
Balance at March 31, 2014	**¥211**	**¥ 973**	**¥(1,266)**	**¥ (82)**	**¥ 35**	**¥7,056**	**¥104,466**

See accompanying notes to the consolidated financial statements.

		Thousands of U.S. Dollars (Note 5)				
		Shareholders' Equity				
	Number of Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2013	**32,937,450**	**$112,578**	**$108,381**	**$623,937**		**$844,896**
Share split	**98,942,850**					
Issuance of stock (exercise of subscription rights)	**1,627,500**	**3,493**	**3,493**			**6,987**
Cash dividends paid				**(19,842)**		**(19,842)**
Net income				**117,435**		**117,435**
Purchase of treasury stock					**$(2,546)**	**(2,546)**
Net changes during the year						
Balance at March 31, 2014	**133,507,800**	**$116,071**	**$111,875**	**$721,531**	**$(2,546)**	**$946,931**

	Thousands of U.S. Dollars (Note 5)						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights	Minority Interests	Total Net Assets
Balance at April 1, 2013	**$ 952**	**$4,859**		**$ 5,812**	**$ 491**	**$49,357**	**$ 900,556**
Share split							
Issuance of stock (exercise of subscription rights)					**(154)**		**6,832**
Cash dividends paid							**(19,842)**
Net income							**117,435**
Purchase of treasury stock							**(2,546)**
Net changes during the year	**1,095**	**4,597**	**$(12,303)**	**(6,611)**		**19,198**	**12,588**
Balance at March 31, 2014	**$2,048**	**$9,456**	**$(12,303)**	**$ (799)**	**$ 337**	**$68,555**	**$1,015,024**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 20,536	¥ 15,980	$ 199,536
Depreciation and amortization	5,961	6,319	57,917
Impairment loss	186	314	1,806
Goodwill amortization	637	621	6,192
Increase (decrease) in allowance for bonuses	(73)	351	(710)
Increase (decrease) in allowance for employees' retirement benefits	—	347	—
Increase (decrease) in net defined benefit liability	517	—	5,026
Interest and dividend income	(97)	(95)	(941)
Interest expense	6	2	55
Foreign exchange losses (gains)	(254)	(1,153)	(2,469)
Loss (gain) on sale of investment securities	(376)	(5)	(3,653)
Decrease (increase) in notes and accounts receivables	2,607	(729)	25,326
Decrease (increase) in inventories	(776)	(630)	(7,538)
Increase (decrease) in notes and accounts payable	1,135	(56)	11,024
Increase (decrease) in other payables	(54)	494	(526)
Others	1,809	1,585	17,574
Subtotal	31,763	23,344	308,620
Interest and dividends received	83	130	804
Interest paid	(15)	3	(144)
Income taxes paid	(8,353)	(6,148)	(81,156)
Net cash provided by operating activities	23,479	17,329	228,124
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(6,025)	(6,945)	(58,537)
Proceeds from sale of property, plant and equipment	266	275	2,580
Acquisition of intangible fixed assets	(368)	(354)	(3,576)
Acquisition of marketable securities	(11,995)	(3,000)	(116,550)
Proceeds from redemption of securities	3,000	—	29,149
Proceeds from sales of investment securities	381	44	3,703
Payment of loans receivable	(3)	(197)	(28)
Payment into time deposits	(6,123)	(6,020)	(59,494)
Proceeds from withdrawal of time deposits	3,863	3,010	37,534
Payment of security deposit	(285)	(93)	(2,771)
Collection of security deposit	247	205	2,403
Others	1	75	7
Net cash used in investing activities	(17,042)	(13,000)	(165,580)
Cash flows from financing activities:			
Purchase of treasury stock	(262)	—	(2,546)
Inflow from exercise of stock options	703	634	6,832
Repayment for lease obligations	(106)	(118)	(1,026)
Cash dividends paid	(2,042)	(1,367)	(19,842)
Proceeds from stock issuance to minority shareholders	1,604	1,615	15,581
Cash dividends paid to minority shareholders	(273)	(156)	(2,649)
Other	(7)	(1)	(72)
Net cash used in financing activities	(383)	607	(3,722)
Effect of exchange rate changes on cash and cash equivalents	207	947	2,010
Net increase (decrease) in cash and cash equivalents	6,261	5,883	60,831
Cash and cash equivalents at beginning of year	25,332	19,449	246,132
Cash and cash equivalents at end of year (Note 13)	¥ 31,593	¥ 25,332	$ 306,963

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

1. Basis of Presentation

The accompanying consolidated financial statements of Calbee, Inc. (the "Company") and its consolidated subsidiaries have been prepared from the consolidated financial statements filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan and in conformity with generally accepted accounting principles and practices in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Accordingly, International Financial Reporting Standards are not applied in preparing the accompanying consolidated financial statements. The consolidated financial statements are not intended to present the financial position, results of operations or cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present the information in a form familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen.

As permitted, amounts of less than one million yen are rounded to the nearest one million yen. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries in which the Company holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The consolidated financial statements consist of the Company and its 22 (21 in 2013) significant subsidiaries as listed below.

Consolidated subsidiaries

- Calbee Shokuhin Co., Ltd.
- Calbee Potato, Inc.
- Snack Food Service Co., Ltd.
- Garden Bakery, Inc.
- Tower Bakery, Inc.
- Star Bakery, Inc.
- Calnac Co., Ltd.
- Calbee Eatalk Co., Ltd.
- Japan Frito-Lay Ltd.
- ICS Investment Co., Ltd. (Note 5)
- Calbee America, Inc. (Note 5)
- Calbee North America, LLC (Note 5)
- Calbee Tanawat Co., Ltd. (Note 5)
- Calbee Four Seas Co., Ltd.
- CFSS Co. Ltd. (Notes 1 and 5)
- Qingdao Calbee Foods Co., Ltd. (Note 5)
- Yantai Calbee Co., Ltd. (Note 5)
- Haitai-Calbee Co., Ltd. (Note 5)
- Calbee (Hangzhou) Foods Co., Ltd. (Note 5)
- Calbee (Taipei) Foods Co., Ltd. (Note 5)
- PT. Calbee-Wings Food (Notes 2 and 5)
- Calbee (UK) Ltd (Notes 3 and 5)

Notes: 1. The name of Calbee Four Seas (Shantou) Co., Ltd. used in the consolidated financial statements for the year ended March 31, 2013 has changed to CFSS Co. Ltd. from the year ended March 31, 2014.

2. In the line of the global strategy of the Group, the Company established a joint venture company PT. Calbee-Wings Food in July 2013 aiming to introduce Calbee products to Indonesia and expand market shares for these products. PT. Calbee-Wings Food was included in the scope of consolidation from the year ended March 31, 2014.

3. In the line of the global strategy of the Group, the Company established Calbee (UK) Ltd in March 2014 with the aim to gain access to Europe's largest snack market, the UK. Calbee (UK) Ltd was included in the scope of consolidation from the year ended March 31, 2014.

4. For Oisia Foods Co., Ltd., which was included in the scope of consolidation in the year ended March 31 2013, only the income statement was consolidated for the year ended March 31, 2014. This is because an absorption-type merger was conducted on July 1, 2013 with Calbee as the surviving entity and Oisia Foods Co., Ltd. as the non-surviving entity.

5. The fiscal year-end of these subsidiaries is December 31.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost.

For the years ended March 31, 2014 and 2013, all subsidiaries are consolidated and there is no affiliate which is accounted for by equity method.

For the years ended March 31, 2014 and 2013, three affiliates, Potato Foods Co., Ltd., Hiroshima Agricultural Produce Distributors Cooperative, and Socio Kobo Co., Ltd., were not accounted for using the equity method as they were not significant in terms of net income and retained earnings of the consolidated financial statements.

All significant intercompany balances and transactions have been eliminated in consolidation. Accounts of subsidiaries whose year-ends differ by three months from March 31 have been included using pro forma financial information prepared as of March 31.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate in effect at the balance sheet date and gains or losses arising from such translation are credited or charged to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the exchange rate in effect at the balance sheet date, whereas shareholders' equity of such subsidiaries is translated at the historical rate that prevailed on the date of their acquisition. Income and expenses of overseas subsidiaries are translated into yen using the average exchange rate during the fiscal year. Translation adjustments are included in foreign currency translation adjustments and minority interests in net assets section of the accompanying consolidated balance sheets.

(c) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks available for withdrawal on demand and short-term highly liquid investments with an original maturity of three months or less which are readily convertible into cash and subject to insignificant risk of changes in value.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the Company's actual historical experience of credit loss for active accounts and on an individual basis after an analysis of collectibility for certain doubtful accounts.

(e) Marketable and investment securities

Marketable and investment securities are classified and valued as follows:

(1) Held-to-maturity debt securities
 Amortized cost method (straight-line method)

(2) Available-for-sale securities
 Securities for which fair values are readily available:
  Marked-to-market using market prices at the fiscal year-end, with any changes in unrealized holding gains or losses, net of applicable income taxes, included directly in net assets. Cost of securities sold is determined using the moving-average method.
 Securities for which fair values are not readily available:
  Stated at cost based on the moving-average method.

(f) Inventories

Inventories are stated at cost using the average method for finished goods and work-in-process. The moving-average method is applied for commercial goods, raw materials and supplies. The book value of inventories is written down to reflect any declines in profitability.

(g) Property, plant and equipment (except for leases)

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated primarily by the declining-balance method over the estimated useful lives of the respective assets, except for buildings (excluding leasehold improvements) acquired subsequent to March 31, 1998, for which depreciation is calculated by the straight-line method. The useful lives of buildings, machinery and equipment are as follows:

	Useful lives (years)
Buildings	15 to 31 years
Machinery and equipment	10 years

After property, plant and equipment acquired prior to April 1, 2007 are depreciated to the depreciable limit (5% of the acquisition price), the remaining balance is further depreciated to memorandum value using the straight-line method over five years beginning in the following year.

(h) Goodwill

Goodwill is amortized using the straight-line method over 5, 10 or 20 years.

(i) Intangible assets (except for leases)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over the estimated useful life of five years.

(j) Leases

Finance lease assets that do not transfer ownership of the property to the lessee are depreciated using the straight-line method over the lease term with no residual value, except for those leased prior to April 1, 2008, which are accounted for in a similar manner to operating lease transactions.

(k) Allowance for bonuses

Allowance for bonuses is provided for the bonus payments to employees and directors in the estimated bonus amount attributable to the current fiscal year.

(l) Allowance for stock payments

To prepare for future awards of Calbee shares to Group employees, allowance for stock payments is provided for stock award debt based on predetermined regulations for awarding stock.

(m) Allowance for directors' retirement benefits

To provide for the payment of directors' retirement benefits, the amount payable under internal regulations at the consolidated balance sheet date is recorded.

(n) Accounting method for retirement benefits

(1) Period allocation methodology for the estimated retirement benefit amount
The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a straight-line basis.

(2) Amortization of net unrecognized actuarial gains (losses) and unrecognized prior service cost
Net unrecognized actuarial gains (losses) gain or loss are amortized beginning in the following fiscal year by the straight-line method over a specified number of years (12 years) within the average remaining service period of employees at the time the difference arose.

Unrecognized prior service cost is amortized by the straight-line method over a specified number of years (five years) within the average remaining service period of employees at the time the cost incurred.

(3) Application of the simplified method for small businesses
For part-time employees of the Company, amount payable at the fiscal year-end in accordance with internal regulations is provided for.

For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses in which the necessary retirement benefit provisions for voluntary resignations at the end of the consolidated fiscal year are recorded as retirement benefit obligations.

(o) Consumption taxes

Transactions subject to consumption tax and local consumption tax are stated at the amount, net of consumption taxes.

(p) Business commencement expenses

Business commencement expenses are expensed as incurred.

(q) Standard issued but not yet effective

Accounting standard for retirement benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

This accounting standard was revised mainly on a processing method of unrecognized actuarial loss and unrecognized prior service cost, a calculation method of retirement benefit obligations and service cost and expansion of the disclosure based on a point of view that improved a financial report and an international trend.

The Company applied the revised accounting standard from the end of the annual period ending on March 31, 2014. However, on the calculation method of retirement benefit obligations and service cost, it expects to apply from the beginning of the annual period ending on March 31, 2015.

The Company expects the application of these accounting standards to have a negligible impact on operating income, ordinary income, and income before income taxes and minority interests of the annual period ending March 31, 2015.

Accounting standard for business combination

On September 13, 2013, the ASBJ issued the following revised accounting standards and implementation guidance:

- ASBJ Statement No. 21, "Accounting Standard for Business Combinations"
- ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements"
- ASBJ Statement No. 7, "Accounting Standard for Business Divestitures"
- ASBJ Statement No. 2, "Accounting Standard for Earnings Per Share"
- ASBJ Guidance No. 10, "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures"
- ASBJ Guidance No. 4, "Revised Guidance on Accounting Standard for Earnings Per Share"

These accounting standards, etc., were revised mainly on a processing method of; (1) changes in the parent's equity holdings of subsidiaries where the parent retains control in the further acquisition of subsidiaries shares, etc., (2) expenses associated with the acquisition, (3) disclosure of net income and the change from minority interests to non-controlling interest, and (4) provisional accounting treatment.

The Company expects to apply the revised accounting standards from the beginning of the annual period ending on March 31, 2016. Moreover, it expects to apply the provisional accounting treatment to business combinations carried out from the beginning of the annual period ending on March 31, 2016 onward.

The Company is in the process of measuring the effects of applying the revised accounting standards on the making of the accompanying consolidated financial statements.

3. Accounting Change

Accounting Standard for Retirement Benefits

From the year ended March 31, 2014, the Company has adopted ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" issued on May 17, 2012 and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits" issued on May 17, 2012. (However, the stipulations of Article 35 and Article 67 of the Guidance on Accounting Standard for Retirement Benefits are excluded from the application.)

Under this accounting standard, the Group changed its accounting method to record net defined benefit liability and net defined benefit asset for retirement benefit for the amount deducting the value of pension assets from retirement benefit obligations. Accordingly, the Group recorded in net defined benefit liability and net defined benefit asset for retirement benefit, unrecognized actuarial gains (losses) and unrecognized prior service cost due to the revised accounting standard.

In accordance with transitional treatment as stipulated in Article 37 of the Accounting Standard for Retirement Benefits for the application of accounting standards for retirement benefits, the impact resulting from the change was recorded under remeasurements of defined benefit plans under accumulated other comprehensive income at the end of the current consolidated fiscal year.

As a result of this adoption, the Group recorded net defined benefit liability of ¥6,134 million ($59,604 thousand) and net defined benefit asset of ¥1,891 million ($18,377 thousand) and accumulated other comprehensive income decreased by ¥1,266 million ($12,303 thousand) for the year ended March 31, 2014.

The effect on per share information is described in the per share information section.

4. Additional Information

Employee stock ownership plan (ESOP) trust

For the year ended March 31, 2014, the Company has begun the early application of the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trust" (PITF No. 30, December 25, 2013).

(1) Transaction summary

On March 7, 2014, the employee stock ownership plan trust ("The Trust") was implemented as a Group employee ("employee") incentive plan with the aim of improving long-term corporate value. By raising awareness of our financial results and share price among employees, we aim to further promote corporate activities that improve financial results. The Company has established the Trust by contributing funds for acquisition of Calbee stock for those employees who satisfy certain requirements. Based on predetermined regulations for awarding stock, the Trust will acquire the estimated number of Calbee stock to be awarded to employees from the stock market during the predetermined stock acquisition period. Funds required for the Trust to purchase the aforementioned stocks will be provided by the Company. The employees will bear no liabilities.

Introducing the Trust will enable employees to profit from a rise in stock prices, and will promote awareness of the stock price among employees as they execute their duties, and is thereby expected to improve employee motivation. Further, voting rights for company stock held in the Trust will be used within a structure that will reflect the will of the candidate beneficiary employee and is an effective way to improve corporate value by promoting employee participation in management planning.

(2) The Company's own stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the year ended March 31, 2014 were ¥260 million ($2,525 thousand) and 103,400 shares, respectively.

Absorption of consolidated subsidiary

At the meeting of the Board of Directors held on February 25, 2014, it was resolved that the Company merges with a consolidated subsidiary, Calbee Shokuhin Co., Ltd., to improve management efficiency of the Group and strengthen the raw material supply department, and a merger agreement with an effective date of July 1, 2014 was concluded. The Company is the surviving company. There is no change in shares issued and capital with regards to the merger without subsidy, because Calbee Shokuhin Co., Ltd. is a 100% owned subsidiary of the Company.

5. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by converting Japanese yen amounts at the rate of ¥102.92 = $1, the approximate rate in effect on March 31, 2014. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

6. Financial Instruments

(1) Policy for financial instruments

The Company's fund management policy is to use highly secure financial instruments, such as term deposits, with purchases of financial instruments carried out in accordance with internal regulations including the fund management policy. As for funding, domestic consolidated subsidiaries are prohibited from borrowing from third parties and are only allowed to borrow from the Company. The Company borrows necessary funds from third parties if necessary. The Company uses derivatives in order to hedge foreign exchange risk and does not enter into derivative transactions for speculative or trading purposes.

(2) Nature of financial instruments and the related risks and risk management

Trade receivables consist of notes and accounts receivable and are exposed to customers' credit risk. In order to reduce such risk, the Company monitors the credit standing, due dates and outstanding balance by individual customer in accordance with the Group credit management policy.

Marketable securities consist of commercial paper and jointly-managed money trust and are highly safe financial instruments held for short-term investment. The Company considers their credit risk insignificant.

Investment securities consist of shares of companies with business relationships and debt securities for surplus fund management, and are exposed to market volatility risk. In order to reduce such risk, the Company reviews the market values and the financial position of the issuers on a regular basis.

Trade payables consist of notes and accounts payable and borrowings and are exposed to liquidity risk. The Company manages such risk by preparing fund management plans on a monthly basis. Also, the Company enhanced its centralized funding and cash management functions by implementing a cash management system.

To hedge exchange rate volatility risk related to monetary receivables and payables denominated in foreign currencies, the Company uses forward foreign exchange contracts. These derivative transactions are executed and managed in accordance with the internal regulations governing the transaction authorizations. The Company considers that credit risk arising from non-performance of counterparties is minimal because the counterparties to the derivative transactions are limited to domestic banks with high credit standing.

(3) Supplementary explanation of the estimated fair value of financial instruments

The contract amount of derivative transactions shown in Note 20 Derivative Financial Instruments does not represent market risk.

(4) Fair values of financial instruments

Carrying amount, estimated fair value and the difference between them for financial instruments as of March 31, 2014 and 2013 are shown in the following table. The financial instruments for which fair values are not readily available are not included (see Notes 2 below).

	Millions of yen		
(As of March 31, 2014)	Carrying amount	Estimated fair value	Difference
Assets			
(1) Cash and deposits	¥18,784	¥18,784	—
(2) Notes and accounts receivable	17,392	17,392	—
(3) Marketable and investment securities			
Held-to-maturity	29,998	29,999	¥1
Available-for-sale	1,506	1,506	—
Total assets	¥67,679	¥67,681	¥1
Liabilities			
Notes and accounts payable	¥(7,898)	¥(7,898)	—
Total liabilities	¥(7,898)	¥(7,898)	—
Derivative transactions			
Hedge accounting not applied	¥554	¥554	—
Total derivative transactions	¥554	¥554	—

	Thousands of U.S. dollars		
(As of March 31, 2014)	Carrying amount	Estimated fair value	Difference
Assets			
(1) Cash and deposits	$182,507	$182,507	—
(2) Notes and accounts receivable	168,989	168,989	—
(3) Marketable and investment securities			
Held-to-maturity	291,467	291,481	$13
Available-for-sale	14,630	14,630	—
Total assets	$657,593	$657,606	$13
Liabilities			
Notes and accounts payable	$(76,738)	$(76,738)	—
Total liabilities	$(76,738)	$(76,738)	—
Derivative transactions			
Hedge accounting not applied	$5,382	$5,382	—
Total derivative transactions	$5,382	$5,382	—

(As of March 31, 2013)	Millions of yen: Carrying amount	Estimated fair value	Difference
Assets			
(1) Cash and deposits	¥17,343	¥17,343	—
(2) Notes and accounts receivable	19,787	19,787	—
(3) Marketable and investment securities			
Held-to-maturity	13,999	13,999	¥(0)
Available-for-sale	1,336	1,336	—
Total assets	¥52,465	¥52,465	¥(0)
Liabilities			
Notes and accounts payable	¥(6,672)	¥(6,672)	—
Total liabilities	¥(6,672)	¥(6,672)	—
Derivative transactions			
Hedge accounting not applied	¥612	¥612	—
Total derivative transactions	¥612	¥612	—

*Receivables and payables arising from derivative transactions are presented in net amount, with the net liability amount presented in parenthesis.

Notes: 1. Methods to determine the estimated fair value of financial instruments and information related to securities and derivatives

Assets

(1) Cash and deposits and (2) Notes and accounts receivable

The carrying amount approximates fair value due to the short maturities.

(3) Marketable and investment securities

Fair values of equity securities are based on the quoted prices on stock exchanges, and fair values of debt securities are based on the prices quoted by financial institutions. As for certificate of deposits, the carrying amount approximates fair value due to the short maturities.

Liabilities

Notes and accounts payable

The carrying amount approximates fair value due to the short maturities.

Derivative transactions

Refer to Note 20 Derivative Financial Instruments.

2. Unlisted shares with carrying value of ¥9 million ($86 thousand) and ¥11 million at March 31, 2014 and 2013, respectively, are not included in "(3) Marketable and investment securities" in the above table as their market value is not readily available. Net realizable values that are below 50% of the acquisition costs are considered to have "significantly declined," and impairment losses are recognized unless there is sufficient evidence for their recoverability. During the years ended March 31, 2014 and 2013, impairment losses recognized on unlisted shares amounted to nil and ¥19 million, respectively.

Investments in affiliates with carrying value of ¥12 million ($114 thousand) and ¥12 million at March 31, 2014 and 2013, respectively, are also excluded from the above table as their market value is not readily available.

3. Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2014.

(As of March 31, 2014)	Millions of yen: Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥18,763	—	—	—
Notes and accounts receivable	17,392	—	—	—
Marketable securities				
Held-to-maturity				
Jointly-managed money trust	21,000	—	—	—
Commercial paper	9,000	—	—	—
Total	¥66,156	—	—	—

(As of March 31, 2014)	Thousands of U.S. dollars: Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	$182,310	—	—	—
Notes and accounts receivable	168,989	—	—	—
Marketable securities				
Held-to-maturity				
Jointly-managed money trust	204,042	—	—	—
Commercial paper	87,447	—	—	—
Total	$642,787	—	—	—

7. Marketable and Investment Securities

(1) The summary of acquisition cost and carrying value of held-to-maturity and available-for-sale securities as of March 31, 2014 and 2013 is as follows:

Held-to-maturity

	Millions of yen			Thousands of U.S. dollars		
	2014			2014		
	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)						
Jointly-managed money trust	¥14,000	¥14,003	¥ 3	$136,028	$136,057	$ 29
(Securities with estimated fair value not exceeding carrying amount)						
Jointly-managed money trust	7,000	7,000	—	68,014	68,014	—
Commercial paper	8,998	8,996	(2)	87,425	87,410	(15)
Total	¥29,998	¥29,999	¥ 1	$291,467	$291,481	$ 13

Available-for-sale

	Millions of yen			Thousands of U.S. dollars		
	2014			2014		
	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	¥ 852	¥ 392	¥ 460	$ 8,275	$ 3,807	$ 4,468
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	654	790	(136)	6,355	7,680	(1,326)
Total	¥1,506	¥1,182	¥ 323	$14,630	$11,487	$ 3,143

Held-to-maturity

	Millions of yen		
	2013		
	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value not exceeding carrying amount)			
Certificate of deposit	¥ 6,000	¥ 6,000	—
Jointly-managed money trust	5,000	5,000	—
Commercial paper	2,999	2,999	¥(0)
Total	¥13,999	¥13,999	¥(0)

Available-for-sale

	Millions of yen		
	2013		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥ 688	¥ 368	¥ 320
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	648	813	(165)
Total	¥1,336	¥1,181	¥ 155

Note: Unlisted shares with carrying values of ¥9 million ($86 thousand) and ¥11 million at March 31, 2014 and 2013, respectively, are not included in the above table as their market value is not readily available.

(2) Sales of available-for-sale securities

Information on the available-for-sale securities sold during the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2014			2014		
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Equity securities	¥381	¥376	—	$3,703	$3,653	—

	Millions of yen		
	2013		
	Amount of sale	Total gain on sale	Total loss on sale
Equity securities	¥44	¥5	¥0

(3) Impairment loss on available-for-sale securities

The Company recognizes impairment loss for the full amount of securities when the fair value declines below 50% of the acquisition cost, and for amounts deemed necessary after consideration of recoverability when the fair value declines by 30 to 50% of the acquisition cost. During the years ended March 31, 2014 and 2013, impairment losses recognized on equity securities classified as available-for-sale securities amounted to ¥14 million ($138 thousand) and ¥19 million, respectively.

8. Inventories

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished goods and commercial goods	¥ 2,163	¥1,753	$ 21,015
Work in process	1,458	1,418	14,167
Raw materials and supplies	2,902	2,491	28,194
	¥ 6,523	¥5,662	$ 63,377

Valuation losses (gains) due to declines in profitability included in cost of sales for the years ended March 31, 2014 and 2013 were ¥8 million ($75 thousand) and ¥(1) million, respectively.

9. Short-term Borrowings and Long-term Debt

(1) The outstanding balance of long-term debt, lease obligations and other interest-bearing liabilities as at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2014	2013	**2014**	**2014**	2013
				(%)	(%)
Current portion of lease obligations	**¥ 63**	¥113	**$ 612**	**—**	—
Long-term debt, excluding current portion	**—**	7	**—**	**—**	6.5
Lease obligations, excluding current portion	**83**	145	**811**	**—**	—
Other interest-bearing liabilities	**40**	38	**393**	**1.6**	2.0
Total	**¥187**	¥303	**$1,816**		

Note: "Average interest rate" represents the weighted average interest rate on the respective ending balance. The average interest rate for lease obligations is not disclosed as lease obligations include the interest component of the lease payments and it is not practicable to calculate the average interest rate.

The aggregate annual maturities of lease obligations are summarized below:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	Lease obligations	
2015	¥63	$612
2016	44	429
2017	24	233
2018	13	124
2019 and thereafter	3	25

10. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes: corporate tax, local inhabitant taxes and enterprise taxes, which in aggregate resulted in a statutory tax rate of approximately 37.8% for the fiscal years ended March 31, 2014 and 2013. Overseas subsidiaries are subject to income and other taxes of the respective countries in which they operate.

A reconciliation of the statutory tax rate to the effective tax rates for the year ended March 31, 2013 is not disclosed as differences in amounts between the statutory tax rate and corporate tax rate following application of the tax effect accounting were less than 5%.

A reconciliation of the statutory tax rate to the effective tax rates for the year ended March 31, 2014 is as follows:

	2014
	(%)
Statutory tax rate	37.8
Adjustments:	
Entertainment and other permanently non-deductible expenses	1.2
Dividend and other permanently non-taxable income	(0.1)
Special tax credit for income tax	(0.6)
Per capita inhabitant tax	0.5
Adjustment to deferred tax assets and liabilities from changes in the statutory tax rate	0.9
Changes in valuation allowances	(0.0)
Tax rate differences in consolidated subsidiaries	(2.3)
Effect of consolidation adjustments	2.3
Others	0.4
Effective tax rates	40.1

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1	¥ 3	$ 10
Allowance for bonuses	1,365	1,493	13,263
Accrued expenses	948	745	9,211
Enterprise tax payable	372	385	3,615
Allowance for employees' retirement benefits	—	551	—
Net defined benefit liability	1,476	—	14,341
Allowance for directors' retirement benefits	203	196	1,972
Share-based payment expense	12	18	119
Depreciation	139	146	1,351
Impairment loss	217	348	2,105
Asset retirement obligations	232	231	2,257
Loss carried forward	195	27	1,893
Others	465	566	4,520
Subtotal	5,625	4,710	54,658
Less valuation allowances	(714)	(704)	(6,941)
Total deferred tax assets	4,911	4,006	47,717
Deferred tax liabilities:			
Unrealized holding gain on securities	(99)	(44)	(966)
Reserve for accelerated depreciation	(594)	(605)	(5,769)
Asset retirement obligations	(51)	(63)	(498)
Others	(303)	(330)	(2,946)
Total deferred tax liabilities	(1,048)	(1,042)	(10,180)
Net deferred tax assets	¥ 3,863	¥ 2,964	$ 37,538

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2014 and 2013 as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets—deferred tax assets	¥2,829	¥2,791	$27,483
Investments and other assets—deferred tax assets	1,454	538	14,125
Current liabilities—deferred tax liabilities	(126)	(96)	(1,227)
Non-current liabilities—deferred tax liabilities	(293)	(269)	(2,843)
Net deferred tax assets	¥3,863	¥2,964	$37,538

The Law for Partial Revision of the Income Tax Act, etc., was released on March 31, 2014, and a special corporate tax for reconstruction has been levied for fiscal years starting from April 1, 2014 and onward. As a result of this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities will change from 37.8% to 35.4% for temporary differences expected to reverse during the fiscal year starting from April 1, 2014.

As a result, deferred tax assets (the amount excluding deferred tax liabilities) have decreased by ¥195 million ($1,891 thousand) and the income tax adjustment recorded at the end of the current consolidated fiscal year increased ¥195 million ($1,891 thousand).

11. Net Assets

(1) Movements of number of common stock issued and outstanding during the years ended March 31, 2014 and 2013 are as follows:

	Shares	
	2014	2013
Balance at beginning of year	**32,937,450**	32,540,950
Increase	**100,570,350**	396,500
Decrease	**—**	—
Balance at end of year	**133,507,800**	32,937,450

Note: The breakdowns of the increase during the year ended March 31, 2014 are as follows:

Increase through share split	98,942,850 shares
Increase through an exercise of subscription rights	1,627,500 shares

The increase during the year ended March 31, 2013 resulted from an exercise of subscription rights.

(2) Movements of number of treasury stock during the year ended March 31, 2014 are as follows:

	Shares
	2014
Balance at beginning of year	**—**
Increase	**104,232**
Decrease	**—**
Balance at end of year	**104,232**

Note: The breakdowns of the increase during the year ended March 31, 2014 are as follows:

Increase through purchase of shares comprising less than one unit	832 shares
Increase through an acquisition of treasury shares for trust	103,400 shares

(3) As of March 31, 2014 and 2013, the outstanding balance of subscription rights provided for as stock options was ¥35 million ($337 thousand) and ¥51 million, respectively.

(4) Cash dividends

The following appropriation of retained earnings at March 31, 2014 and 2013 was approved at the annual meeting of the Company's shareholders held on June 25, 2014 and June 26, 2013, respectively.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash dividends	**¥2,937**	¥2,042	**$28,538**

Cash dividends attributable to the year ended March 31, 2013 of ¥2,042 million ($19,842 thousand) were paid during the year ended March 31, 2014 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 26, 2013.

12. Retirement Benefits for Employees

The Company and its 3 (3 in 2013) domestic consolidated subsidiaries have corporate pension plans and lump-sum payment plans that are multi-employer plans as defined benefit pension plans. Other domestic consolidated subsidiaries and certain foreign consolidated subsidiaries have only lump-sum payment plans. The Company adopts defined contributions pension plans and prepaid retirement allowance plans.

Charges for net defined benefit liability and retirement benefit expenses for a portion of the Company is retirement benefit system, the defined benefit pension plan for consolidated subsidiaries and the retirement lump-sum allowance system are calculated using the simplified accounting method.

Notes relating to retirement benefits based on defined benefit plans include the portion related to multi-employer plans.

(For the year ended March 31, 2014)

(1) Changes to balance of retirement benefit obligation at beginning and end of term (excludes application of simplified accounting method)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at beginning of term	¥13,270	$128,934
Service cost	691	6,710
Interest cost	161	1,565
Actuarial loss	(125)	(1,211)
Retirement benefits paid	(427)	(4,149)
Prior service cost	91	886
Retirement benefit obligations at end of term	¥13,661	$132,735

(2) Changes to balance of pension assets at beginning and end of term (excludes application of simplified accounting method)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Pension assets at beginning of term	¥ 9,609	$93,367
Expected return on plan assets	96	934
Actuarial loss	258	2,511
Employer contribution	429	4,168
Retirement benefits paid	(248)	(2,405)
Pension assets at end of term	¥10,145	$98,576

(3) Changes to balance of net defined benefit liability at beginning and end of term (Only application of simplified accounting method)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Net defined benefit liability at beginning of term	¥ 651	$6,328
Retirement benefits expense	176	1,706
Retirement benefits paid	(100)	(968)
Contribution to system	(13)	(131)
Increase (decrease) from foreign currency translation	14	132
Net defined benefit liability at end of term	¥ 727	$7,067

(4) Changes to balance of retirement benefit obligation and pension assets at end of term and net defined benefit liability and asset as recorded on the consolidated balance sheet (includes application of simplified accounting method)

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded system retirement benefit obligation	¥ 8,390	$ 81,518
Pension assets	(10,281)	(99,895)
	(1,891)	(18,377)
Non-funded system retirement benefit obligation	6,134	59,604
Net liabilities and assets as recorded on the consolidated balance sheet	¥ 4,243	$ 41,226
Net defined benefit liability	¥ 6,134	$ 59,604
Net defined benefit asset	(1,891)	(18,377)
Net liabilities and assets as recorded on the consolidated balance sheet	¥ 4,243	$ 41,226

(5) Retirement benefit expenses and breakdown of amounts

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 691	$ 6,710
Interest cost	161	1,565
Expected return on plan assets	(96)	(934)
Amortization of actuarial loss	242	2,356
Amortization of service cost	131	1,268
Retirement benefit expenses using the simplified method	176	1,706
Other	13	123
Retirement benefit expenses related to the defined benefit system	¥1,317	$12,794

(6) Remeasurements of defined benefit plans

The breakdowns of items recorded under changes related to remeasurements of defined benefit plans (before deduction of tax) are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥ 563	$ 5,467
Unrecognized actuarial loss	1,402	13,623
Total	¥1,965	$19,090

(7) Items related to pension assets

(a) Breakdown of main items

Allocation of main pension assets items comprising the total is as follows:

	2014
	(%)
Domestic bonds	33.8
Domestic equity	8.0
Foreign equity	7.5
Alternative investments	36.1
General life insurance accounts	14.6
Other	0.0
Total	100.0

(b) Method for determining the expected long-term investment return rate

In determining the expected long-term investment return rate, conservative estimates are made of the assumed interest rate for the corporate pension, the current and expected distributions of pension assets, and the current and expected long-term return rate from the various assets that compose the pension assets.

(8) Items related to actuarial calculations

Main components used in actuarial calculations are as follows:

	2014
	(%)
Discount rate	Mainly 1.2
Expected long-term investment return rate	1.0

Required contributions to the Company and consolidated subsidiaries defined contribution plans were ¥119 million ($1,152 thousand).

(For the year ended March 31, 2013)

The following table summarizes the funded status and amounts recognized in the consolidated balance sheets for the Company's plan at March 31, 2013.

	Millions of yen
	2013
Retirement benefit obligations	¥(14,050)
Fair value of plan assets	9,738
Unfunded retirement benefit obligations	(4,312)
Unrecognized actuarial loss	2,028
Unrecognized prior service cost	602
Net book value on the consolidated balance sheets	(1,682)
Prepaid pension cost	2,291
Allowance for employees' retirement benefits	¥ (3,973)

Notes: 1. Retirement benefit obligations include those for executive officers.
2. Retirement benefit obligations for certain of the Company's retirement benefit plans and certain consolidated subsidiaries are calculated using the simplified method.

The components of net periodic retirement benefit expenses for the year ended March 31, 2013 are as follows:

	Millions of yen
	2013
Service cost	¥ 721
Interest cost	219
Expected return on plan assets	(90)
Amortization of actuarial loss	251
Amortization of prior service cost	8
Retirement benefit expense	1,110
Contributions paid to defined contribution pension plan	115
Additional retirement payments	158
Total	¥1,383

Notes: 1. "Service cost" includes retirement benefit expense for executive officers.
2. Retirement benefit expense applicable to the Company and consolidated subsidiaries calculated by the simplified method is included in "Service cost."

Assumptions used in determining retirement benefit obligations for the year ended March 31, 2013 are as follows:

	2013
Discount rate	1.2 to 1.5%
Expected rate of return	1.0%
Amortization period of prior service cost	5 years
Amortization period of actuarial gains/losses	12 years

Note: Although the discount rate used for the Company and certain subsidiaries at the beginning of the period was 2.0%, it was determined at the end of the period that changes to the discount rate during the period had affected the amount of retirement benefit obligation. The discount rate was therefore adjusted to 1.2% for the Company and 1.3% for the certain subsidiaries.

13. Supplemental Cash Flow Information

The reconciliation between cash and cash equivalents in the consolidated statements of the cash flows and cash and deposits in the consolidated balance sheet items as of March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and deposits	¥18,784	¥17,343	$182,507
Fixed deposit exceeding 3-months deposit period	(5,191)	(3,010)	(50,438)
Certificate of deposit included in the marketable securities	—	3,000	—
Commercial paper included in the marketable securities	—	2,999	—
Jointly-managed money trust included in the marketable securities	18,000	5,000	174,893
Cash and cash equivalents	¥31,593	¥25,332	$306,963

14. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Sales promotion expenses	¥25,718	¥21,723	$249,888
Advertisement expenses	3,461	3,912	33,624
Freight expenses	10,044	9,993	97,589
Salaries and other allowances	11,160	10,092	108,430
Allowance for directors' retirement benefits	112	97	1,086
Allowance for employees' bonuses	1,931	2,344	18,764
Allowance for directors' bonuses	215	193	2,092
Allowance for stock payments	14	—	134
Retirement benefit expense	966	939	9,386
Allowance for doubtful accounts	—	12	—

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Selling, general and administrative expenses	¥2,158	¥2,286	$20,964
Manufacturing expenses	4	3	39
Total	¥2,162	¥2,288	$21,003

16. Sale and Disposal of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Machinery and vehicles	¥ 5	¥ 8	$ 51
Land	45	106	437
Other	0	0	1
Total	¥50	¥115	$489

Loss on sale of property, plant and equipment for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	—	¥34	—
Machinery and vehicles	¥ 4	3	$ 39
Land	2	12	15
Construction in progress	6	—	54
Total	¥11	¥50	$109

Loss on disposal of property, plant and equipment for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥ 42	¥ 43	$ 412
Machinery and vehicles	93	87	899
Lease assets	—	2	—
Construction in progress	1	50	12
Intangible fixed assets	—	4	—
Other	2	6	23
Total	¥139	¥191	$1,346

17. Impairment Loss

For the year ended March 31, 2014, the Company recognized impairment losses of ¥186 million ($1,806 thousand) on real estate. With regard to buildings it has scheduled for demolition, on a book-value basis the asset value has dropped and, as a result, the Company has reduced the book value to the recoverable amount. With regard to machinery, etc. with no intended use in the future, on a book-value basis, the asset value has dropped and, as a result, the Company has reduced the book value to the recoverable amount.

For the years ended March 31, 2013, the Company recognized impairment losses of ¥314 million on real estate for which there is no intended use in the future and whose market values significantly declined.

For the purpose of impairment testing, assets of the Company are generally grouped based on region; however, idle assets without any intended use are grouped by individual property.

The details of impairment loss recognized are as follows:

(For the year ended March 31, 2014)

			Amount	
Location	Purpose of use	Type of asset	Millions of yen	Thousands of U.S. dollars
Utsunomiya City, Tochigi, Prefecture, Japan	Warehouse	Building	**¥88**	**$854**
Utsunomiya City, Tochigi, Prefecture, Japan	Idle assets	Machinery Construction in progress	**¥98**	**$952**

The carrying value of these assets is written down to their net realizable value based on the net selling price or zero if it is not likely that the above assets can be sold or used for other purposes.

(For the year ended March 31, 2013)

			Amount
Location	Purpose of use	Type of asset	Millions of yen
Utsunomiya City, Tochigi, Prefecture, Japan, one other	Idle assets	Building and machinery, etc. Land	¥314

The carrying value of these assets is written down to their net realizable value based on the net selling price. The valuation of land is based on appraisal by a real estate appraiser. Assets which cannot be sold or used for other purposes are regarded as having no value.

18. Adjustments and Income Tax in Other Comprehensive Income

Adjustments and income tax in other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Other comprehensive income			
Unrealized holding gain (loss) on securities			
Amount during the term	¥ 156	¥ 138	$ 1,515
Adjustments	13	(5)	123
Prior income tax adjustment	169	133	1,638
Income tax	(56)	(44)	(541)
Total	¥ 113	¥ 88	$ 1,097
Foreign currency translation adjustments			
Amount during the term	¥1,092	¥1,788	$10,608
Adjustments	(192)	—	(1,865)
Prior income tax adjustment	900	1,788	8,742
Income tax	—	—	—
Total	¥ 900	¥1,788	$ 8,742
Total other comprehensive income	¥1,013	¥1,877	$ 9,839

19. Leases

Future minimum lease payments subsequent to March 31, 2014 and 2013 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due in 1 year or less	¥ 7	—	$ 67
Due over 1 year	5	—	46
Total	¥12	—	$113

Leased assets under finance lease transactions contracted prior to April 1, 2008 that do not involve the transfer of ownership are accounted for in a similar manner as operating leases. Had these leases been accounted for under the accounting treatment for finance leases, the acquisition cost, accumulated depreciation and net book value would have been as follows:

	Millions of yen			Thousands of U.S. dollars		
	2014			2014		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥ 96	¥ 85	¥11	$ 935	$ 828	$107
Other	25	21	4	241	201	40
Total	¥121	¥106	¥15	$1,176	$1,029	$147

Leased assets	Millions of yen 2013 Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥128	¥103	¥26
Other	31	24	7
Total	¥159	¥126	¥33

Future minimum lease obligations under finance lease transactions subsequent to March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due in 1 year or less	**¥14**	¥18	**$134**
Due over 1 year	**1**	15	**13**
Total	**¥15**	¥33	**$147**

Lease payments for the years ended March 31, 2014 and 2013 were ¥18 million ($171 thousand) and ¥29 million, respectively.

20. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2014 and 2013 is as follows:

	Millions of yen			
	2014			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
US dollars	**¥5,004**		**¥ 84**	**¥ 84**
Buy				
US dollars	**3,771**	**¥2,143**	**470**	**470**
Total	**¥8,774**	**¥2,143**	**¥554**	**¥554**

	Thousands of U.S. dollars			
	2014			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
US dollars	**$48,617**		**$ 814**	**$ 814**
Buy				
US dollars	**36,637**	**$20,818**	**4,568**	**4,568**
Total	**$85,253**	**$20,818**	**$5,382**	**$5,382**

	Millions of yen			
	2013			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Buy				
US dollars	¥3,597	¥1,628	¥612	¥612
Total	¥3,597	¥1,628	¥612	¥612

*Fair value is determined based on the price provided by the financial institutions that are counterparties to the transactions.

21. Business Combinations

Common control transaction
(Merger with consolidated subsidiary)

On July 1, 2013, the Company merged with a consolidated subsidiary, Oisia Foods Co., Ltd., in order to improve efficiency of the Group's management and strengthen the cereals business. The Company was the surviving company.

The merger was accounted for as a transaction under common control in accordance with ASBJ Statement No. 21, "Accounting Standard for Business Combinations" and ASBJ Guidance No.10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," issued on December 26, 2008.

22. Stock Options

As of March 31, 2014, the Company has the following stock option programs.

Date of resolution	February 15, 2005	June 24, 2009
Type and number of eligible persons	[The Company] Director: 12 Statutory auditor: 4 Employee: 165 [the Company's subsidiaries] Director: 27 Statutory auditor: 1	[The Company] Director: 2 Statutory auditor: 1 Employee: 14 [the Company's subsidiaries] Director: 2
Class and number of shares to be granted	Common stock: 5,910,000 shares	Common stock: 1,600,000 shares
Grant date	March 22, 2005	June 30, 2009
Vesting requirement	—	—
Vesting period	—	—
Exercise period	From April 1, 2007 to March 31, 2014	From July 1, 2009 to June 30, 2019

Note: Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

(1) Number and price information

(As of March 31, 2014)

	Shares	
Date of resolution	February 15, 2005	June 24, 2009
Unvested stock options		
Outstanding as of March 31, 2013	—	—
Granted	—	—
Expired	—	—
Vested	—	—
Outstanding as of March 31, 2014	—	—
Vested stock options		
Outstanding as of March 31, 2013	1,556,000	674,000
Vested	—	—
Exercised	1,546,000	212,000
Expired	10,000	—
Outstanding as of March 31, 2014	—	462,000

Note: Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

	Yen	U.S. dollars	Yen	U.S. dollars
Date of resolution	February 15, 2005		June 24, 2009	
Exercise price	¥ 400	$ 3.89	¥ 400	$ 3.89
Average stock price at exercise	2,445	23.76	2,440	23.71
Fair value at grant date	—	—	75	0.73

Note: Exercise price in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

(2) Estimate of fair value of stock options

The fair value of the stock options granted on June 30, 2009 is estimated using the intrinsic value per unit based on the price calculated under the net asset value method and benchmark companies' analysis, as the Company was not a public company at the time of the grant.

(3) Estimate of number of vested stock options

Number of options to expire in the future cannot be reasonably estimated. Accordingly, only the actual number of expired options is reflected.

(4) Intrinsic value of stock options

	Yen	U.S. dollars
	2014	2014
Total intrinsic value at end of period	¥937,398,000	$9,108,025.65
Total intrinsic value on the exercise date of the stock options exercised during the year	¥428,803,000	$4,166,371.94

23. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2014 and 2013.

(1) For the year ended March 31, 2014

Officers and individual major shareholders

Nature of related party	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Masahiko Matsuo	Advisor of the Company	Direct 0.13%	Exercise of subscription rights (Note 2-1)	¥40 million ($389 thousand)
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO, Representative Director of the Company	Direct 0.03%	Exercise of subscription rights (Note 2-2)	¥16 million ($155 thousand)
Officer and his/her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.07%	Exercise of subscription rights (Note 2-1 and 2-2)	¥64 million ($622 thousand)
Officer and his/her close family member	Haruhiko Sekiguchi	Executive Vice President of the Company	Direct 0.03%	Exercise of subscription rights (Note 2-2)	¥20 million ($194 thousand)
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.12%	Exercise of subscription rights (Note 2-1)	¥40 million ($389 thousand)

Notes: 1. The above amounts do not include consumption taxes.

2-1. The exercise of stock options was granted by resolution at the extraordinary shareholders' meeting held on February 15, 2005, pursuant to Article 280-20, 280-21 and 280-27 of the Pre-commercial Code revision (revised in 2001). The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

2-2. The exercise of stock options was granted by resolution at the ordinary shareholders' meeting held on June 24, 2009, pursuant to Article 236, 238 and 239 of the Companies Act. The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

(2) For the year ended March 31, 2013

Officers and individual major shareholders

Nature of related party	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Masahiko Matsuo	Advisor of the Company	Direct 0.02%	Exercise of subscription rights (Note 2-1)	¥12 million
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO, Representative Director of the Company	Direct 0.06%	Exercise of subscription rights (Note 2-2)	¥32 million
Officer and his/her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.05%	Exercise of subscription rights (Note 2-1)	¥12 million
Officer and his/her close family member	Takayoshi Naganuma	Executive Vice President of the Company	Direct 0.03%	Exercise of subscription rights (Note 2-1)	¥12 million
Officer and his/her close family member	Haruhiko Sekiguchi	Executive Vice President of the Company	Direct 0.01%	Exercise of subscription rights (Note 2-2)	¥32 million
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.10%	Exercise of subscription rights (Note 2-1)	¥12 million
Officer and his/her close family member	Takeshi Taniguchi	Senior Executive Officer of the Company	Direct 0.05%	Exercise of subscription rights (Note 2-2)	¥12 million

Notes: 1. The above amounts do not include consumption taxes.

2-1. The exercise of stock options was granted by resolution at the extraordinary shareholders' meeting held on February 15, 2005, pursuant to Article 280-20, 280-21 and 280-27 of the Pre-commercial Code revision (revised in 2001). The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

2-2. The exercise of stock options was granted by resolution at the ordinary shareholders' meeting held on June 24, 2009, pursuant to Article 236, 238 and 239 of the Companies Act. The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

24. Per Share Information

Per share information as of and for the years ended March 31, 2014 and 2013 is as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Net assets per share	**¥729.93**	¥664.55	**$7.09**
Net income per share			
Basic	**¥ 91.46**	¥ 72.18	**$0.89**
Diluted	**¥ 90.42**	¥ 70.91	**$0.88**

Basis for calculation of net assets per share was as follows:

	Millions of yen, except share data		Thousands of U.S. dollars, except share data
	2014	2013	2014
Total net assets	¥104,466	¥92,685	$1,015,024
Net assets attributable to common stock	¥ 97,376	¥87,555	$ 946,132
Major components of the difference			
Subscription rights	¥ 35	¥ 51	$ 337
Minority interests	¥ 7,056	¥ 5,080	$ 68,555
Number of common stock issued and outstanding (shares)	133,507,800	131,749,800	133,507,800
Treasury stock of common stock (shares)	104,232	—	104,232
Number of common shares used in calculation of net assets per share (shares)	133,403,568	131,749,800	133,403,568

Basis for calculation of net income per share was as follows:

	Millions of yen, except share data		Thousands of U.S. dollars, except share data
	2014	2013	2014
Basis for calculation of net income per share			
Net income	¥12,086	¥9,441	$117,435
Net income attributable to common stock	¥12,086	¥9,441	$117,435
Net income not attributable to common stock	—	—	—
Average number of shares outstanding during the year (shares)	132,144,134	130,786,693	132,144,134
Adjustments to net income	—	—	—
Major dilutive factors included in calculating diluted net income per share			
Subscription rights (shares)	1,530,990	2,341,677	1,530,990
Increase in number of common stock (shares)	1,530,990	2,341,677	1,530,990

Notes: 1. On October 1, 2013, a 1:4 share split was implemented for common shares. For this reason, in the calculation of net assets per share, net income per share, and diluted net income per share, it has been assumed that this share split was conducted at the beginning of the previous consolidated fiscal year.
2. The Company's own stock in the trust recorded as treasury stock under shareholders' equity includes treasury shares excluded from the average number of shares during the period used for calculating net income per share and treasury shares excluded from the number of shares outstanding at the end of the fiscal year used for calculating net assets per share.
For the year ended March 31, 2014, 6,232 treasury shares were excluded from the average number of shares during the period used for calculating net income per share and 103,400 treasury shares were excluded from the number of shares outstanding at the end of the fiscal year used for calculating net assets per share.
3. As stated in Note 3 Accounting change, the "Accounting Standard for Retirement Benefits" has been applied and transitional treatment is as stipulated in Article 37 of the Accounting Standard for Retirement Benefits.
As a result, net assets per share have decreased by ¥9.49 ($0.09) for the year ended March 31, 2014.

25. Segment Information

For the years ended March 31, 2014 and 2013, information on operating segments is not disclosed as the Company has only one reporting segment, "Production and sale of snacks and other foods."

[Related information]

(1) Sales by product and service

	Millions of yen			
	2014			
	Snacks	Other foods	Other	Total
Sales to third parties	**¥173,146**	**¥23,774**	**¥3,021**	**¥199,941**

	Thousands of U.S. dollars			
	2014			
	Snacks	Other foods	Other	Total
Sales to third parties	**$1,682,335**	**$230,991**	**$29,357**	**$1,942,684**

	Millions of yen			
	2013			
	Snacks	Other foods	Other	Total
Sales to third parties	¥155,660	¥21,334	¥2,417	¥179,411

(2) Information by region

Information about sales by region is not disclosed as Japan accounts for over 90% of the total amount.

Information about property, plant and equipment by region is as follows:

	Millions of yen				
	2014				
	Japan	America	China	Other Asia	Total
Property, plant and equipment	**¥39,259**	**¥5,242**	**¥1,345**	**¥4,320**	**¥50,166**

	Thousands of U.S. dollars				
	2014				
	Japan	America	China	Other Asia	Total
Property, plant and equipment	**$381,452**	**$50,934**	**$13,070**	**$41,974**	**$487,430**

	Millions of yen				
	2013				
	Japan	America	China	Other Asia	Total
Property, plant and equipment	¥40,334	¥4,956	¥920	¥3,243	¥49,454

(3) Sales by major customers

		Millions of yen		Thousands of U.S. dollars
	Related segment	2014	2013	2014
YAMABOSHIYA Co., Ltd.	Production and sale of snacks and other foods	¥25,176	¥24,228	$244,618
CONFEX CO., LTD.	Production and sale of snacks and other foods	21,967	11,947	213,434
Mitsubishi Shokuhin Co., Ltd.	Production and sale of snacks and other foods	21,654	16,452	210,398

(4) Impairment loss on fixed assets by reporting segment

	Millions of yen				
	2014				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	¥186	¥186	—	—	¥186

	Thousands of U.S. dollars				
	2014				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	$1,806	$1,806	—	—	$1,806

	Millions of yen				
	2013				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	¥314	¥314	—	—	¥314

(5) Amortization and unamortized balance of goodwill by reporting segment

	Millions of yen				
	2014				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	**¥ 637**	**¥ 637**	**—**	**—**	**¥ 637**
Balance at end of year	**¥3,347**	**¥3,347**	**—**	**—**	**¥3,347**

	Thousands of U.S. dollars				
	2014				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	**$ 6,192**	**$ 6,192**	**—**	**—**	**$ 6,192**
Balance at end of year	**$32,523**	**$32,523**	**—**	**—**	**$32,523**

	Millions of yen				
	2013				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	¥ 621	¥ 621	—	—	¥ 621
Balance at end of year	¥3,955	¥3,955	—	—	¥3,955

Independent Auditor's Report

EY
Building a better working world

Ernst & Young ShinNihon LLC
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Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
CALBEE, Inc.

We have audited the accompanying consolidated financial statements of CALBEE, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CALBEE, Inc. and consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

Ernst & Young ShinNihon LLC

June 25, 2014
Tokyo, Japan

Corporate History

1940s–1970s

Apr. 1949	Company established
Jan. 1964	*Kappa Ebisen* (prawn crackers) launched
Apr. 1968	Utsunomiya Factory (Tochigi) started operations
Nov. 1969	Chitose Factory (Hokkaido) started operations
Mar. 1970	Calbee America, Inc.* established in the U.S.
Apr. 1972	Calbee Shokuhin Co., Ltd.* established (absorbed by merger with CALBEE, Inc. in July 2014)
Feb. 1975	Kagoshima Factory (Kagoshima) started operations
Sep. 1975	Shimotsuma Factory (Ibaraki) started operations
Sep. 1975	*Potato Chips* launched
Nov. 1976	Shiga Factory (currently Konan Factory; Shiga) started operations

1980s

Apr. 1980	Calbee Tanawat Co., Ltd.*, a joint venture with a local Thai company, established in Thailand
Oct. 1980	Potato Procurement Department spun off as Calbee Potato, Inc.*
Jul. 1983	Kakamigahara Factory (Gifu) started operations
Nov. 1986	Hiroshima-Nishi Factory (currently Hiroshima Factory, West Building; Hiroshima) started operations
Jul. 1989	Cereals launched throughout Japan
	Kiyohara Factory (Tochigi) started operations

1990s

Apr. 1990	Snack Food Service Co., Ltd.* established
Feb. 1994	Calbee Four Seas Co., Ltd.*, a joint venture with Four Seas Mercantile Holdings Ltd., established in Hong Kong
Jul. 1995	Qingdao Calbee Foods Co., Ltd.* established in China
Oct. 1995	*Jagarico* launched
Jun. 1996	Garden Bakery, Inc.* established
Jun. 1999	Ayabe Factory (Kyoto) started operations

2000s

Apr. 2000	Calnac Co., Ltd.* established
Oct. 2002	Calbee Four Seas (Shantou) Co., Ltd. (currently CFSS Co. Ltd.*) established in China
Apr. 2004	Cereal Manufacturing Department spun off as Oisia Foods Co., Ltd. (absorbed by merger with CALBEE, Inc. in July 2013)
Jul. 2004	R&DDE Center (currently R&D Center) started operations
Feb. 2006	Hiroshima Factory (currently Hiroshima Factory, East Building; Hiroshima) started operations
Apr. 2006	*Jagabee* launched
Aug. 2006	Yantai Calbee Co., Ltd.* established in China
Aug. 2006	RDO-Calbee Foods, LLC (currently Calbee North America, LLC*), a joint venture with R.D. OFFUTT COMPANY, established in the U.S.
Oct. 2006	Acquired 80% of issued shares in Tower Bakery, Inc.* and acquired 100% of issued shares in Star Bakery, Inc.*
Nov. 2007	Calbee Eatalk Co., Ltd.*, a company employing people with disabilities, established
Jul. 2009	Capital alliance formed with U.S. food and beverage manufacturer PepsiCo, Inc.
	Japan Frito-Lay Ltd.* made a wholly owned subsidiary to strengthen the Group's snack food business (corn-based snacks)

2010s

Mar. 2011	Listed on the First Section of the Tokyo Stock Exchange
Jul. 2011	Haitai-Calbee Co., Ltd.* established in South Korea as a joint venture with HAITAI Confectionery & Foods Co., Ltd.
Jul. 2012	All of Calbee America, Inc.*'s snack food production and sales were split off and transferred to Calbee North America, LLC*
Aug. 2012	Calbee (Hangzhou) Foods Co., Ltd.*, a joint venture with Master Kong Instant Foods Investment (China) Co., Ltd. and ITOCHU Corporation, established in China
Aug. 2012	Calbee (Taipei) Foods Co., Ltd.*, a joint venture with Wei Chuan Foods Corporation, established in Taiwan
Feb. 2013	Established ICS Investment Co., Ltd.* as a special purpose company with ITOCHU Corporation to establish PT. Calbee-Wings Food*
Jul. 2013	PT. Calbee-Wings Food* established in Indonesia as a joint venture with the Wings group
Oct. 2013	Conducted a stock split in which common shares were split at a ratio of 1:4
Mar. 2014	Established Calbee (UK) Ltd* in the U.K.
Apr. 2014	Established Calbee-URC, Inc.* in the Philippines as a joint company with Universal Robina Corporation

* Currently consolidated subsidiaries

Corporate Data

(As of March 31, 2014)

Company Name	CALBEE, Inc.
Date of Establishment	April 30, 1949
Head Office	Marunouchi Trust Tower Main, 22nd Floor 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-0005, JAPAN
Paid-in Capital	11,946 million yen
Representatives	Akira Matsumoto, Chairman of the Board & CEO Shuji Ito, President & COO
Number of Employees	3,341 (consolidated basis), 1,640 (parent basis)
Fiscal Year-end	March 31
Business	Production and sale of snacks and other foods
Independent Auditor	Ernst & Young ShinNihon LLC

Group Companies

Japan

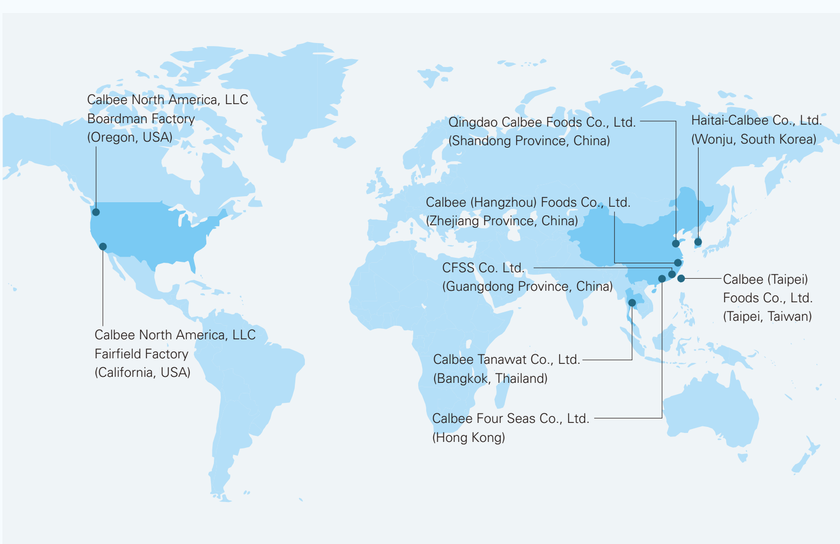
Calbee Shokuhin Co., Ltd.
(absorbed by merger with CALBEE, Inc. in July 2014)
Calbee Potato, Inc.
Snack Food Service Co., Ltd.
Garden Bakery, Inc.
Tower Bakery, Inc.
Star Bakery, Inc.
Calnac Co., Ltd.
Calbee Eatalk Co., Ltd.
Japan Frito-Lay Ltd.
ICS Investment Co., Ltd.

Overseas

Calbee America, Inc.
Calbee North America, LLC
Calbee Tanawat Co., Ltd.
Calbee Four Seas Co., Ltd.
CFSS Co. Ltd.
Qingdao Calbee Foods Co., Ltd.
Yantai Calbee Co., Ltd.
Haitai-Calbee Co., Ltd.
Calbee (Hangzhou) Foods Co., Ltd.
Calbee (Taipei) Foods Co., Ltd.
PT. Calbee-Wings Food
Calbee (UK) Ltd
Calbee-URC, Inc. (established in Apr. 2014)

Location of Factories

Overseas



Japan

Investor Information

(As of March 31, 2014)

Common Stock Authorized: 176,000,000 shares*
Issued: 133,507,800 shares*

Number of Shareholders 13,308

Annual General Meeting June

Date of Listing March 11, 2011

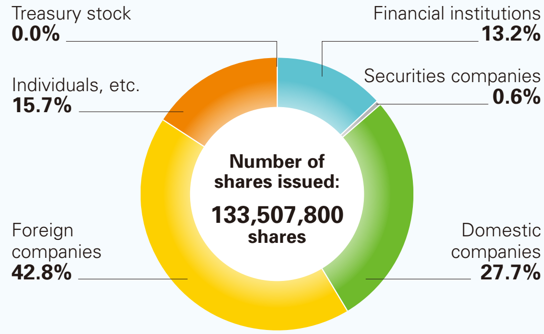
Stock Listing First Section of the Tokyo Stock Exchange

TSE Code 2229

Share Register Mitsubishi UFJ Trust and Banking Corporation

* CALBEE's common stock was split at a ratio of 4 shares for 1 share effective October 1, 2013.

Share Breakdown by Shareholder



Principal Shareholders

Shareholder	Number of shares (thousands)	Ownership ratio (%)
FRITO-LAY GLOBAL INVESTMENTS B.V. [1]	26,800	20.07
General Incorporated Association Miki-no-Kai [2]	23,380	17.51
Japan Trustee Services Bank, Ltd. (Trust Account)	4,477	3.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,902	2.92
Calbee Employees Shareholding Association	3,183	2.38
STATE STREET BANK AND TRUST COMPANY	2,799	2.10
THE TORIGOE CO., LTD.	1,936	1.45
Kirihara Container Factory co., ltd.	1,400	1.05
Sankyo Polyethylene Co., ltd.	1,380	1.03
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,323	0.99

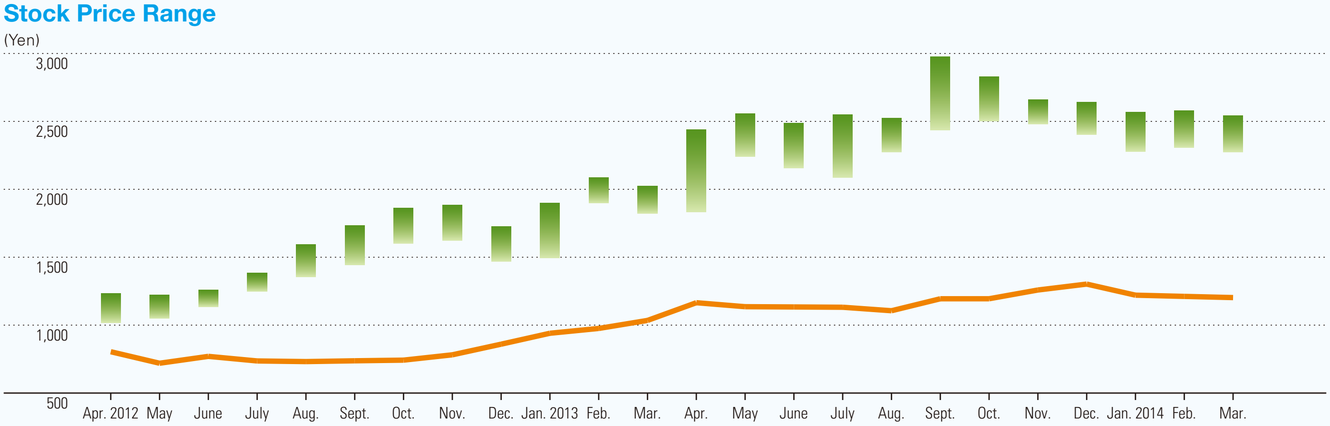
1. FRITO-LAY GLOBAL INVESTMENTS B.V. is a wholly-owned subsidiary of PepsiCo, Inc.
2. General Incorporated Association Miki-no-Kai is a shareholding association of the founding family of the Company.
3. Ownership ratios are calculated excluding treasury stock (832 shares).

Shares and Shareholders

	2013	2014
Number of Shares Issued	32,937,450	133,507,800
Share Breakdown by Shares Issued		
Financial institutions	10.6%	13.2%
Securities companies	1.1%	0.6%
Domestic companies	30.5%	27.7%
Foreign companies	40.9%	42.8%
Individuals, etc.	16.9%	15.7%
Treasury stock	–	0.0%

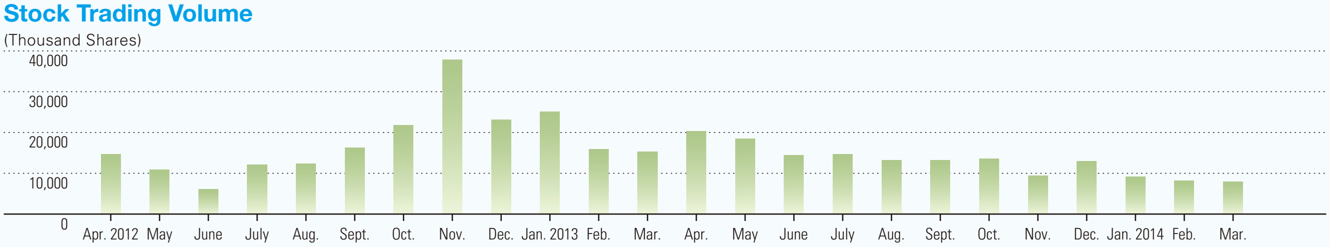
	2013	2014
Number of Shareholders	5,772	13,308
Share Breakdown by Shareholders		
Financial institutions	0.7%	0.4%
Securities companies	0.6%	0.3%
Domestic companies	1.7%	1.0%
Foreign companies	4.7%	2.6%
Individuals, etc.	92.3%	95.7%
Treasury stock	–	0.0%

Stock Price Range



* Stock prices show the range between the high and low price for each month.

Stock Trading Volume



* CALBEE's common stock was split at a ratio of 4 shares for 1 share effective October 1, 2013. Stock prices and trading volumes prior to the date of the stock split have also been retroactively adjusted.

Contact

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Harvest the Power of Nature.

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http://www.calbee.co.jp/english/ir/

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